Ministry of Innovation and Science

Annual Report

2003 – 2004

Ministry of Innovation and Science

Department of Innovation and Science

Alberta Science and Research Authority (ASRA)

Alberta Research Council Inc.

iCORE (Alberta Informatics Circle of Research Excellence) Inc.

Alberta Heritage Foundation for Medical Research

Alberta Heritage Foundation for Science and Engineering Research *(operating under the trade name, Alberta Ingenuity Fund)*

Alberta
INNOVATION AND SCIENCE

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Acronyms used in this Report

AACI	ARC/AERI Core Industry (AACI) program
AAFRD	Alberta Agriculture, Food and Rural Development
AARI	Alberta Agricultural Research Institute
ACSC	Alberta Corporate Service Centre
AEDA	Alberta Economic Development Authority
AERI	Alberta Energy Research Institute
AFHR	Alberta Foundation for Health Research
AFRI	Alberta Forestry Research Institute
AHFMR	Alberta Heritage Foundation for Medical Research
AHW	Alberta Health and Wellness
ARC	Alberta Research Council Inc.
ASAS	Alberta Secure Access Service
ASRA	Alberta Science and Research Authority
ASRIP	Alberta Science and Research Investments Program
ASTech	Alberta Science and Technology Leadership Foundation
BSE	Bovine Spongiform Encephalopathy
CCPC	Canadian Clean Power Coalition
CFI	Canada Foundation for Innovation
CIO	Chief Information Officer
CO_2	Carbon Dioxide
CTO	Chief Technology Officer
DCIO	Department Chief Information Officer
DOVAP	Dover Vapex Pilot
GAEA	Government of Alberta Enterprise Architecture
GoA	Government of Alberta
HP	Hewlett-Packard
iCORE	Alberta Informatics Circle of Research Excellence
ICT	Information and Communications Technology
ICT SCI	Information and Communications Technology Service Coordinator Initiative
IEEE	Institute of Electrical and Electronic Engineers
IFAASA	Institute for Food, Agri-Industrial and Agricultural Sciences Alberta
IMAGIS	The Alberta Government Integrated Management Information System
INNSCI	Alberta Innovation and Science
NCUT	National Centre for Upgrading Technology
NSERC	Natural Sciences and Engineering Research Council of Canada
PNP	Alberta Provincial Nominee Program
RACOL	Rural Advanced Community of Learners
SHARP	Shared Repository
U of A	University of Alberta
U of C	University of Calgary
U of L	University of Lethbridge
VAPEX	Vapour Extraction

Public Accounts 2003 – 2004

105-02493/

Preface

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 24 Ministries.

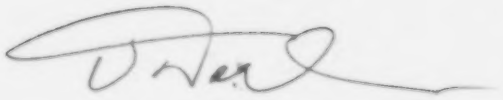
The annual report of the Government of Alberta released June 29, 2004 contains the Minister of Finance's accountability statement, the consolidated financial statements of the Province and a comparison of the actual performance results to desired results set out in the government's business plan, including the *Measuring Up* report.

This annual report of the Ministry of Innovation and Science contains the Minister's accountability statement, the audited consolidated financial statements of the Ministry and a comparison of actual performance results to desired results set out in the ministry business plan. This Ministry annual report also includes:

- **the financial statements of entities making up the Ministry including the Department of Innovation and Science and provincial agencies for which the Minister is responsible, and**
- **other financial information as required by the *Financial Administration Act* and *Government Accountability Act*, either as separate reports or as a part of the financial statements, to the extent that the Ministry has anything to report.**

Minister's Accountability Statement

The Ministry's Annual Report for the year ended March 31, 2004, was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at September 13, 2004 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.



Hon. Victor Doerksen, F.C.G.A.
Minister of Innovation and Science

Message from the Minister

Unleashing innovation is key to Alberta's future prosperity and quality of life. As we move forward, the government's 20-year strategic plan — Today's Opportunities, Tomorrow's Promise — identifies unleashing innovation as a significant component to building a strong future for the province. Innovation and Science will be a key driver of this plan as we continue to establish Alberta as a world leader in research and technology.

Through the Ministry's two core businesses: research and development; and corporate Information and Communications Technology (ICT), Alberta Innovation and Science continues to concentrate on strategies to strengthen Alberta's capacity for innovation and utilization of technology.

In the area of research and development, the Alberta Energy Research Institute (AERI) has seen success in the EnergyINet initiative. By bringing together public and private sector partners from across Canada, EnergyINet is developing an integrated approach to innovation in priority areas, such as oil sands upgrading, clean coal technology, carbon dioxide management, enhanced conventional oil and natural gas, water management and alternative energy.

Both ICT research and the ICT sector are vital to Alberta's economic future, and are playing a key role in improving all sectors of the Alberta economy as well as enabling innovative delivery of government services throughout the province. This year Alberta Innovation and Science began work towards establishing an ICT Institute to guide research and investment in this important area.

Work also began to establish a Life Sciences Institute that will link and coordinate agriculture, environment, forestry, health, bioenergy, and water research. The Alberta Agricultural Research Institute (AARI) in partnership with Alberta Agriculture, Food and Rural Development is leading the implementation of Alberta's Agriculture Research and Innovation Strategic Framework. The Alberta Forestry Research Institute (AFRI) and ASRA endorsed a Forestry Research Business Plan for 2004 – 07 that is setting strategic directions for forestry research and investment decisions.

Technology missions to California, Korea and Japan solidify our commitment to building partnerships and furthering the province's expertise in the high-tech sector. Examples of success in this area include a research and development partnership with Belgium in the new media sector, cooperation in R&D with the Korean Science and Technology Ministry and agreements with Singapore in wireless technologies.

The province also benefits from unique funding programs including the Alberta Ingenuity Fund, the Alberta Heritage Foundation for Medical Research, the Alberta Science and Research Investments Program, and iCORE grants — all of which continue to help attract, retain and grow some of the world's top research talent.

In the area of corporate ICT, work continued toward our goal of becoming a global leader in the use of technology to deliver government services.

In October 2003, the government established the Office of the Corporate Chief Information Officer to provide leadership in strengthening the link between ICT and the government's business objectives. Part of that work includes standardizing and consolidating ICT resources across government departments, allowing information to be more easily integrated and improving ease of access to programs and services for Albertans.

One of our achievements this year was the development of the Government of Alberta Enterprise Architecture (GAEA) and the privacy protection framework to guide the design of the government's computer systems. The privacy architecture was the recipient of the Hewlett Packard (HP) Privacy Innovation Award that recognizes organizations showing innovation and leadership in addressing privacy issues. The privacy architecture protects personal information by reducing the possibility of inadvertent or malicious disclosures of personal information from government databases.

Construction of Alberta SuperNet continues. Tremendous progress has been made this year in placing conduit in the ground and fiber into that conduit, as well as the number of points of presence built. This year has also seen live application of the network. In March, the Rural Advanced Community of Learners (RACOL) was launched in the Fort Vermilion School Division. Now teachers in six schools across the division can instruct up to four classrooms at once using videoconferencing technology.

At the same time that Alberta SuperNet enables high-speed broadband access availability to residents and businesses, it will also become the foundation for electronic service delivery of government programs and services throughout the province.

These are just a few of the many activities that support the Government of Alberta's vision for the future of the province. Alberta has worked hard to build a strong research community, a world-class reputation for excellence and to enrich the lives of Albertans through science, research and technology.

I am very pleased with the strategies and initiatives outlined in this report. They not only point to Alberta's successes but are also leading us into the future. I would like to thank Ministry staff and our industry partners for their tireless efforts. I would also like to thank Alberta's team of dedicated advisors on the Alberta Science and Research Authority (ASRA) board for their passion for research and technology development and solid advice that is helping to set the future direction for Alberta. The government will continue to expand Alberta's capability and capacity for innovation — ensuring a prosperous future for generations of Albertans to come.

Victor Doerksen, F.C.G.A.
Minister of Innovation and Science

Management's Responsibility for Reporting

The Ministry of Innovation and Science includes:

Department of Innovation and Science
Alberta Science and Research Authority and its wholly owned subsidiaries
Alberta Research Council Inc. and
iCORE Inc.

The executives of the individual entities within the Ministry have the primary responsibility and accountability for the respective entities. Collectively, the executives ensure the Ministry complies with all relevant legislation, regulations and policies.

Ministry business plans, annual reports, performance results and the supporting management information are integral to the government's fiscal and business plans, annual report, quarterly reports and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the Ministry rests with the Minister of Innovation and Science. Under the direction of the Minister, we oversee the preparation of the Ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with the government's stated accounting policies.

In addition to program responsibilities, we establish and maintain the Ministry's financial administration and reporting functions. The Ministry maintains systems of financial management and internal control, which give consideration to costs, benefits, and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money,
- provide information to manage and report on performance,
- safeguard the assets and properties of the Province under Ministry administration,
- provide Executive Council, Treasury Board, the Minister of Finance and the Minister of Innovation and Science any information needed to fulfill their responsibilities, and
- facilitate preparation of Ministry business plans and annual reports required under the *Government Accountability Act*.

In fulfilling our responsibilities for the Ministry, we have relied, as necessary, on the executive of the individual entities within the Ministry.

Barry Mehr
Deputy Minister
September 13, 2004

Dan Bader, P.Eng.
Corporate Chief Information Officer
September 13, 2004

Overview

Our Vision

Alberta prospers through the application of science and research and the innovative use of technology

Our Core Businesses and Key Accomplishments in 2003 – 04

The Ministry has two core businesses — Research and Development, and Corporate Information and Communications Technology. Ministry activities contribute to the achievement of goals and targets under the government's core businesses: people, prosperity, and preservation — particularly goals related to:

- economic prosperity
- infrastructure efficiency and effectiveness
- lifelong learning and work

The Minister of Innovation and Science is responsible for the administration of legislation relating to the **Alberta Heritage Foundation for Medical Research** and the **Alberta Ingenuity Fund**. The key accomplishments of these foundations are included in the section of this report titled "Other Information".

Core Business 1: Research and Development

Mission: *To enhance the contribution of science, research, development and commercialization to the sustainable prosperity and quality of life of all Albertans.*

In 2003 – 04, Innovation and Science (INNSCI) continued to pursue activities, strategic investments and innovative partnerships that helped to strengthen Alberta's innovation capacity and ability to compete in the global, knowledge-based economy.

Research Capability and Capacity: Key investments were made in state-of-the-art research infrastructure. Specific examples include WestGrid and the Canadian Centre for Behavioural Neuroscience. INNSCI also celebrated the realization of a collaborative effort of the GoA, National Research Council and the U of A to establish the National Institute for Nanotechnology (NINT), with a ceremonial groundbreaking for the permanent home of this facility. NINT will be one of the world's most technologically advanced research facilities. The research conducted in this facility will have limitless applications. Strategic investments that were made to strengthen Alberta's reseach capability and capacity enable research excellence in the three priority areas of energy, Information and Communications Technology (ICT), and life sciences. By building a strong foundation, Alberta is better able to develop, attract and retain the highly skilled people who fuel the engine of the knowledge-based economy.

Energy Research: Through the efforts of the Alberta Energy Research Institute (AERI), EnergyINet has been created, based on broad consultation with industry, the federal government and other provincial governments. The intention of EnergyINet is to be a fully integrated and collaborative energy technology and innovation network across Canada. The main strategic goals for EnergyINet are to ensure a competitive Canadian energy supply to maintain the Canadian economic advantage while ensuring environmental protection, and position Alberta and Canada at the forefront of integration between energy systems. This year, a number of projects were funded with significant potential to reduce greenhouse gases and environmental emissions.

ICT Research: Through iCORE, success was achieved in attracting some of Canada's best ICT graduate students and world-class ICT researchers. iCORE's success is enabling Alberta to progress towards achieving critical mass in ICT research. This is significant because ICT research is at the heart of a healthy ICT industry and underpins success in other sectors of the Alberta economy.

Life Sciences Research: The Life Sciences Strategy was approved and announced and development of an implementation plan was initiated in consultation with stakeholders. This strategy outlines the actions required for Alberta to seize the opportunities that exist in the global life sciences industry. Through the Alberta Agricultural Research Institute (AARI) and the Alberta Forestry Research Institute (AFRI), the Ministry continued to focus on pursuing excellence in agriculture and forestry research:

- AARI played a key role in establishing the strategic research priorities that will be pursued through the Institute for Food, Agri-Industrial and Agricultural Sciences, Alberta. This collaborative agreement will pool resources, staff and facilities valued at over $750 million, significantly accelerating agricultural innovation in Alberta.
- AFRI developed a business plan, endorsed by the Alberta Science and Research Authority (ASRA), which sets the strategic direction for forestry research investments in Alberta. The plan is focused on sustainable forest management, enhancing and diversifying the value chain, and new products and processes.

Ministry efforts in this area build on Alberta's strengths in agriculture and forestry.

Growth of Knowledge-based industries and Technology Commercialization: The Ministry strengthened Alberta's global business relations through partnerships with multinational companies and other countries facilitating numerous joint projects in commercializing research, collaborations and infrastructure building initiatives. These efforts are critical in supporting innovative growth of Alberta companies, and enhancing connections to global markets and research networks. Key activities in 2003 – 04 focussed on addressing the challenges faced by industry in the process of technology commercialization:

- Sponsored events that provide opportunities for Alberta companies to network with investors.
- Offered educational seminars to help Alberta companies to adopt, commercialize and market promising technologies.
- Through the Alberta Research Council Inc. (ARC), worked with hundreds of customers and partners, providing facilities and research expertise that support the ability of Alberta companies to develop and commercialize technology.

Ministry efforts in this area ensure there is an opportunity for ideas with commercial potential to become new products, processes and services that can benefit Albertans and others.

Core Business 2: Corporate Information and Communications Technology (ICT)

Mission: *To provide strategic leadership and direction in the innovative and cost-effective use of ICT to improve the efficiency of government program delivery.*

With the establishment of the Office of the Corporate Chief Information Officer (Corporate CIO) in October 2003, the Alberta Government has re-stated its commitment to corporate leadership for ICT and to the optimization of internal government administration. ICT enables efficient delivery of government programs and services to Albertans. Significant investments in ICT continue to be made by the Alberta government to meet the expectations of Albertans in accessing government services and programs efficiently and effectively. This requires collaboration with all government departments.

The Government of Alberta Enterprise Architecture (GAEA) is the foundation for enhancing services, interoperability, and reducing costs.

This year, significant progress has been made toward common cross-government standards, shared common infrastructure and common e-business processes.

As part of the GAEA project, the Privacy Architecture was completed in June 2003 to protect the information that is being shared on a government-wide scale. Last October, the Government of Alberta (GoA) received the HP Privacy Innovation Award for this Privacy Architecture. The award recognizes organizations showing innovation and leadership in addressing privacy issues.

An equally critical component in this process is that of security. As on-line activities and the number of users that can communicate with one another increase, we must secure access to the information that may be stored or transferred as required by various programs. The Alberta Secure Access Service (ASAS) creates a common utility-based service where users can be identified, registered, and validated in a single standardized environment. Initially this service will be utilized in the delivery of the Electronic Health Record and to secure access to information required for the On-line Transcript Request Initiative.

Alberta SuperNet will become the foundation for electronic service delivery of government programs and services throughout the province, and will enable high-speed broadband access availability to residents and businesses.

The impact of SuperNet and GAEA will be seen across the province — on individuals and businesses — on the efficiency of the delivery of services to Albertans — on the effectiveness of communication within government.

Highlights — Performance Measures

- In 2003 – 04, the estimated $249.8 million GoA expenditure on research and development (R&D) exceeded the target of $230 million.
- Alberta's research system has remained strong, demonstrated by a continued, high level of sponsored research at Alberta universities in spite of a downturn in business climate in sectors, such as information and telecommunications, that support and rely on research. Sponsored research was at $434 million in 2002 – 03, 88% above the 1998 – 99 baseline.
- AERI invested over $12 million in a balanced portfolio of projects aligned with the five goals of the Alberta Energy Research Plan, which supports the energy priority of ASRA. Also, in three major programs (AACI, DOVAP and NCUT) AERI leveraged $3.78 invested by industry and the federal government for every dollar invested by AERI in 2003 – 04. For the smaller research, development and technology demonstration projects and programs, AERI leveraged $2.63 investment by other funding partners for every dollar AERI invested, exceeding the expected leverage of $2 or more.
- iCORE exceeded the targets for attracting and retaining research chairs and graduate students. Four new research chairs were awarded in 2003 – 04, for a total of 17 active research chairs funded by iCORE. There were 75 new awards to graduate students in 2003 – 04, for a total of 161 active graduate students attracted to and retained in Alberta by iCORE support. Sixty-five percent of these students have indicated that they intend to stay in Alberta after graduation.
- The number of knowledge workers in Alberta's ICT sector has grown over the long-term, however, in 2003, the number of Albertans employed in the ICT sector decreased by 3,400, reflecting a global downturn in this sector.
- Life Sciences employment in Alberta has grown to 70,400 in 2003, an increase of about 9% over the 2001 baseline figure of 64,400.
- The construction of Alberta SuperNet continues to move forward, with five additional communities connected in the Extended Area Network in 2003 – 04. Seventy-six percent of required conduit is in place and 5,363 kilometres of fiber has been installed within the conduit, enabling the connection of communities to SuperNet.
- The number of transactional government programs and services available to Albertans through Service Alberta continues to increase across government. As of March 31, 2004, 47 transactional services were available on-line.
- Progress has been made toward optimization of the government's ICT environment through standardization, rationalization and consolidation of ICT resources across government.
- A cornerstone of Alberta's pursuit of the transformation of the delivery of government programs and services through innovative uses of ICT was achieved through the development of GAEA which created a "Building Code" to guide ICT investments across government.

Highlights — Financial Performance

Spending was within approved targets and directed to the Ministry's core businesses.

Expenses for the Ministry totaled $219.4 million for 2003 – 04. Significant programs within INNSCI include:

$161.9 million for Core Business 1 — Research and Development:

- $59.3 million for ARC.
- $37.9 million for modern equipment to support leading-edge research.
- $21.4 million transfer to the Alberta Heritage Foundation for Science and Engineering Research Endowment Fund to build scientific and engineering capability in key areas.
- $12.1 million for energy research.
- $9.7 million for iCORE Inc. to build research capability in ICT.
- $8.6 million for agricultural research.
- $4.1 million to facilitate technology commercialization.
- $2.6 million for forestry research.
- $6.2 million for program delivery support.

$50.0 million for Core Business 2 — Corporate Information and Communications Technology:

- $24.6 million for the delivery of cross-government telecommunications services.
- $10.3 million for the delivery and enhancement of cross-government information technology services.
- $12.5 million for the delivery of cross-government financial and human resource applications (IMAGIS).
- $2.6 million in community involvement and transition costs for Alberta SuperNet.

$7.5 million was spent on **Ministry Support Services** including: Minister's Office, Deputy Minister's Office, Office of the Corporate CIO, Policy and Strategic Planning, Finance, Human Resources, Communications and Strategic Management Information Services.

Equipment and Inventory Purchases for the Ministry totaled $6.2 million for 2003 – 04:

- $3.0 million for ICT (e.g., computer hardware and software, telecommunications equipment).
- $3.2 million for ARC (e.g., research equipment).

Capital investment for the Ministry totaled $27.7 million in 2003 – 04 for the Alberta SuperNet Initiative.

Summary of Key Activities in the Past Year

Goal 1 — Research Capability and Capacity

Research Capability and Capacity:

Basic research is the foundation of the innovation system — the source of ideas and highly skilled people. A critical element in building excellence is having access to leading-edge equipment. INNSCI invested $36.2 million in research infrastructure and research programs at Alberta universities and post-secondary institutions in key strategic areas of energy, ICT and life sciences. Examples include:

- WestGrid — Canada's first comprehensive grid, an integrated system of high-performance computing facilities, data storage capability, collaborative work sites, high-speed networks, and human resources that together will provide a unique shared infrastructure for research groups across Alberta and British Columbia.
- High-Field Magnetic Resonance System for Biological Image-Guided Tomotherapy — A system to develop biological tumor targeting, to study the subsequent treatment effects on tumors and healthy tissues, and ultimately, to provide a new and safer way of delivering radiation to treat cancer.
- Heart and Stroke Research Centre — A translational human vascular biology research facility that takes a 'bench-to-bedside' approach to the study of heart attacks and strokes through state-of-the-art cardiovascular imaging tools, basic science core labs, a gene therapy facility and an outcomes research centre.
- Alberta Centre for Surface Engineering and Science — An integrated facility that will support innovative research to develop more durable surfaces for industrial use, improved catalysts for use in the oil sands sector, and the production of biomaterials for human health applications.

Science Awareness and Promotion:

- The 2003 – 04 campaign was the most successful to date in terms of reaching more audiences, partnering with more organizations, and attracting more corporate sponsorship funds. This year, initiatives were introduced to expand/enhance Alberta students' opportunities to learn about science and technology and the importance of the knowledge economy. The Science and Technology Week campaign was a Bronze Recipient of the 2003 Premier's Award of Excellence.
- Sponsored the Alberta Science and Technology (ASTech) Leadership Foundation Leaders of Tomorrow award, presented to an individual who shows leadership potential in the areas of science and technology teaching, research, entrepreneurship or technology based business.
- In cooperation with Global Television and Western Economic Diversification Canada, INNSCI developed "Alberta Innovation 2003", the third annual documentary on Alberta's science and technology sector. Positive response led to a rebroadcast of the program. Copies of the program were distributed to all Alberta junior-high schools, national and international Economic Development Offices, members of the Science Council of the Alberta Teachers' Association, etc.
- Enabled a number of science outreach initiatives, through support provided to a variety of organizations, which facilitated science activities in schools, through science fairs, research mentoring programs, and summer research programs at universities for high-school students.

Goal 2 — Energy Research

Through the leadership of AERI, EnergyINet has been created, based on broad consultation with industry, the federal government and other provincial governments. The intention of EnergyINet is to be a fully integrated and collaborative energy technology and innovation network across Canada. Five priority areas have been identified to support energy innovation and activities are underway within each area. In addition AERI supports four University Chairs in energy research that support a range of energy innovation areas.

CO_2 Management and Water Management:

- AERI worked with Alberta Energy to develop their CO_2 Projects Royalty Credit Program and participated in the selection of the CO_2 enhanced oil recovery field projects in Alberta.
- Selection of a location is underway for the Suncor Enhanced Coal Bed Methane pilot, involving CO_2 displacement of natural gas from coal bed seams.
- Initiated development of a strategic plan for water management in the energy sector.

Oil Sands Upgrading: Initiated development of upgrading technology 'roadmaps.'

Clean Coal/Carbon: Completed an evaluation of technologies for generating clean power.

Recovery: VAPEX Field Pilot: Participated with nine leading Canadian oil and gas producers (the DOVAP consortium) in a field pilot to test the economic, environmental and technical viability of a new recovery technology, which has the potential to lower greenhouse gas emissions and reduce water consumption from oil sands and heavy oil reservoirs.

Alternate Energy:

- NAIT Fuel Cell: Supported the installation of the largest fuel cell demonstration unit in western Canada, at the Northern Alberta Institute of Technology (NAIT). This 200-kilowatt fuel cell has been successfully commissioned and an interpretive centre is being built to showcase the first high-voltage, commercially operated fuel cell in Canada.
- Climate Change Action Plan: In 2003 – 04, the GoA provided $30 million for investment in sustainable energy technologies over a 3-year period. This funding, $10 million per year, is shared between INNSCI (managed by AERI) and Alberta Environment. Investments are made in the five major priority areas of the Alberta Energy Innovation Strategy, and in support of "Albertan's and Climate Change — Taking Action" plan. A number of projects were funded with significant potential to reduce greenhouse gases and environmental emissions.

Goal 3 — ICT Research

In 2003 – 04, iCORE continued its success in attracting and retaining world-class ICT researchers to Alberta:

- Attracted two world-leading research chairs in Quantum Computing and in Artificial Intelligence.
- Partnered with industry and the federal government to fund three industry research chairs in Wireless Networks (with Telus Mobility), Thin Film Engineering (with Micralyne), and Intelligent Sensing Systems (with Syncrude and Matrikon).
- Supported 161 active ICT graduate students. To date, iCORE has supported 276 of Canada's best ICT graduate students in Computer Science and Computer Engineering and related areas, who came to Alberta universities.
- Conducted a survey of the graduate students iCORE supports. Sixty-five percent stated that they intended to remain in Alberta, indicating that a very highly educated workforce in a key growth area is available in the province. This will encourage companies to locate in the province and will increase entrepreneurial activity in this high growth, high value-added sector.

Goal 4 — Life Sciences Research

Life Sciences Strategy:

- The Life Sciences Strategy led to the announcement in the Speech from the Throne, of government's intention to create a Life Sciences Institute.
- Progress has been made toward implementation of the Life Sciences Strategy with input from both government and external participants. Implementation will focus on health, platform technologies and bioproducts.
- As part of the government's Water for Life Strategy, INNSCI led the development of approaches for water research to support forestry, agriculture, health, energy and environment sectors.

Agricultural Research:

- INNSCI, through the efforts of AARI and in partnership with AAFRD, is leading the implementation of Alberta's Agriculture Research and Innovation Strategic Framework. Key activities include the establishment of strategic research priorities to be pursued by Agri-Food Discovery Place — a research facility being built at the University of Alberta (U of A) focused on food safety and value-added products from crops.
- Established strategic research priority areas to be pursued through the Institute for Food, Agri-Industrial, and Agricultural Sciences, Alberta (IFAASA), a collaborative agreement between AAFRD, U of A, and ARC, which will pool resources, staff and facilities valued at over $750 million. Priorities that will be pursued are genomics, food and food ingredients, health and wellness products, bio industrial products and soil and water quality.
- Supported the establishment of BioProducts Alberta to identify strategic agriculture research opportunities for Alberta.
- Continued to manage the Agricultural Funding Consortium to ensure R&D priorities are aligned with industry and public needs. INNSCI, through AARI, invited Climate Change Central to join the Agricultural Funding Consortium to enable the review and analysis of agriculture research funding initiatives focused on climate change issues.
- AARI funds have been invested in a range of projects that are developing new technologies, products and knowledge, applicable to the further growth and prosperity of the agriculture industry.

Forestry Research:

- AFRI developed a business plan, endorsed by ASRA, which sets the strategic direction for forestry research investments in Alberta focused on sustainable forest management, enhancing and diversifying the value chain and new products and processes.
- AFRI developed a unique tripartite agreement between Manning Diversified Forest Products Ltd, Alberta Sustainable Resource Development and INNSCI regarding the establishment of an industry-funded research program focused on forestry in northern Alberta.
- AFRI continued to manage Alberta's investment in the Sustainable Forest Management Network, an incorporated, non-profit Canadian research centre established in 1995.

Goal 5 — Growth of Knowledge-based Industries and Technology Commercialization

High Quality People:

- Coordinated expatriate events in San Diego and Silicon Valley to advise expatriate Albertans of high technology business opportunities available in Alberta and to encourage their return to and/or investment in Alberta.
- Industry sponsored, under the Alberta Provincial Nominee Program (PNP), 13 individuals from abroad who are working for employers who were unable to fill critical skilled occupations in Alberta's high technology sector.

Business Growth and Investment Attraction:

- Supported Calgary's Wireless City project to help promote the growth of the region's cluster and attract new investment.
- Collaborated with BioAlberta and GoA departments to showcase 15 Alberta companies at Bio2003, the world's largest biotechnology conference, in Washington, D.C.
- Participated in the Premier's mission to Silicon Valley. Held private sector meetings and a Venture Investment Roundtable with California CEOs.
- Hosted the second annual Alberta Innovation and Investment Week in September. The event provided opportunities for Alberta companies to network with 22 Silicon Valley investors. This also included the Banff Venture Forum which brought together ICT firms and investors.

Technology Development and Commercialization:

- Supported the Medical Devices Development Program, which provided an opportunity for over 200 students to work on early-stage product development.
- Successfully developed and offered four Innovation Series educational seminars to over 260 participants to help Alberta companies adopt, commercialize and market promising technologies.
- Facilitated signing of a technology commercialization agreement between Alberta's TRLabs and CyberPort of Hong Kong, witnessed by Premier Klein.
- ARC worked with about 875 customers and partners during 2003 – 04 and performed R&D contract services for the private sector and other external customers totaling $32 million.
- ARC was granted 38 patents and received $4.4 million in royalties, licensing fees and products sales from the commercialization of technology. During the last five years, ARC has earned more than $16 million in royalty, licensing fees and product sales.

- The ARC / AERI core industry research program (AACI) was independently credited with creating $2.9 billion annually in new energy production and generates third party direct leverage of 12:1 on program costs.
- The ARC / Forintek Canada partnership was launched five years ago. As a result, variable costs for Canadian-oriented strand board makers have dropped by 15.5 per cent since 1997 and wood fibre used per cubic metre of product has dropped 10 per cent. Mills affiliated with ARC and Forintek have achieved aggregate cost reductions of $192 million.
- Facilitated numerous joint research projects, collaborations and partnerships between Alberta research organizations and industrial and international partners. The combined value of these projects is nearly $20 million.
- Developed a joint strategy with industry and research partners in Belgium and Finland to develop applications and provide commercialization opportunities.

Goal 6 — Alberta SuperNet

In the Fort Vermilion region, the Rural Advanced Community of Learners (RACOL) is using SuperNet to level the playing field for students who otherwise would not have access to specific learning programs. Students and teachers can see, hear, and interact with each other, as if they were in the same room, even though they may be hundreds of kilometers apart. Teachers will also benefit by being able to participate in conferences, special training sessions, and basic communication with other teachers in remote areas.

La Crete, Fort Vermilion, High Level, Rainbow Lake, and Rocky Lane are using broadcast quality digital video, streaming media, electronic whiteboards and educational objects to bring students and teachers face to face — even if they are not in the same classroom, or even in the same school jurisdiction.

In the January 2004 cover story of its magazine *Spectrum*, the Institute of Electrical and Electronic Engineers (IEEE) proclaimed Alberta SuperNet to be "the best blueprint yet". IEEE is the world's leading society for engineering technology, computer engineering and communications technologies.

With 47 transactional services available on-line through Service Alberta, Albertans can perform actions such as Vehicle Registration Renewal, High School Transcript Ordering and access the Alberta Waitlist Registry without leaving their homes.

Progress on the SuperNet Build as of March 31, 2004

Extended Area Network Progress:

- 5782 (76%) km out of an approximate 7582 km of conduit required is in place.
- 5363 km of fiber has been installed within the conduit in place enabling the connection of communities.
- 241 (60%) of 402 Points of Presence established.
- 368 (92%) of 402 Access Agreements signed.
- SuperNet infrastructure is in place in 90 communities and construction is underway in 96 additional communities.
- 11 communities (2.6%), of 402 fully connected (hooked up and functioning on SuperNet infrastructure).

Base Area Network Progress:

- Bell West is responsible for the Network build in the 27 major urban centres.
- All 27 communities have Stakeholders connected to the Network, although the communities, in their entirety, are not complete.
- All Inter-city fiber (2560 km) is in place.
- Updated schedules received for 877 buildings out of approximately 1874.

Goal 7 — Innovative use of ICT

In 2003 – 04 the Ministry, under the leadership of the Corporate CIO, took key steps to optimize the government's ICT environment through standardization, rationalization and consolidation of ICT resources across government:

- Developed a Privacy Architecture that was the recipient of the international HP Privacy Award.
- Selected and engaged world leading sourcing expertise and advice on sourcing methodology and processes related to the coordination and rationalization of government's ICT environment.
- Contract awarded to implement ASAS, which will create a common, utility-based service where users can be identified, registered, and validated in a single standardized environment.
- The Shared ICT Services project team has developed a detailed architectural design for a common government-wide Windows 2000 environment.
- To date, Alberta Health and Wellness, Innovation and Science, Infrastructure, Alberta Corporate Service Centre (ACSC) Corporate Office, ACSC IT, Municipal Affairs, Finance and Revenue have been, or are in the process of, migrating to this shared GoA environment, with Alberta Environment being the newest addition to join the project and begin the process of migrating into the GoA environment. This shared ICT infrastructure is critical to enabling an integrated approach to delivery of programs and services to Albertans and increases efficiencies in the internal administration of government.
- Established virus protection software standards at desktop, server and Exchange e-mail tiers.

Consultative processes undertaken

- Completion of energy challenge dialogue process focused on recognition of EnergyINet as a vehicle for program delivery. This consultation involved industry, the federal government and other provincial government participants.
- An implementation planning workshop was held with support identified for specific directions as outlined in the Life Sciences Strategy in the areas of health, platform technologies and bioproducts.
- Engaged in consultations, through AARI, to support the establishment of research priorities for IFAASA (the Institute for Food, Agri-Industrial and Agricultural Sciences, Alberta). This is an agreement which has been signed between AAFRD, the U of A and ARC, to pool staff, resources and facilities valued at more than $750 million.

Legislative and policy changes

- Amendments were made to the Alberta Heritage Foundation for Science and Engineering Research Act to ensure the short-term growth and long-term sustainability of the endowment fund.

Privatization and outsourcing

- Initiated planning on a model to coordinate and rationalize government's ICT environment through a partnership with the private sector.

Cross Ministry Initiatives

Through cross ministry initiatives, INNSCI works with other ministries toward common policy objectives to ensure that programs and services are aligned with the government-wide agenda and are effective in meeting the priority needs of Albertans without overlap, duplication or contradictory policies. In 2003 – 04, the ministry undertook activities that supported key objectives in a number of cross ministry initiatives:

Aboriginal Policy Initiative

The Office of the Corporate CIO supports this initiative through promotion of SuperNet at meetings and events such as the Canada-Alberta Aboriginal Partnership Forum, and the Aboriginal Information and Communication Technology Forum. Presentations were also made to Métis Settlements and First Nations to promote SuperNet awareness and provide information on how Aboriginal communities can take advantage of SuperNet.

Alberta Children and Youth Initiative

The Alberta Centre for Child, Family and Community Research was incorporated as a not-for-profit organization in early 2003. ASRA continued its support of this initiative by providing strategic advice as requested, to support research in the areas of children and youth.

Economic Development Strategy

- INNSCI is a co-champion of the Economic Development Strategy.
- Undertook a range of activities, aimed at creating a strong foundation for a sustainable, globally competitive economy — from supporting research excellence to encouraging technology commercialization — from attracting world-class researchers to creating strong partnerships.
- Provided significant input to the development and release of the value-added strategy, *Securing Tomorrow's Prosperity*.
- Supported the work of the ASRA Innovation Task Force and the ASRA/AEDA Access to Capital Task Force. The reports produced by these groups also contributed to the value-added strategy.
- Construction on the Alberta SuperNet continued. This broadband network will increase opportunities to attract investment and skilled workers to the province, while, at the same time, enabling rural communities and businesses to connect to the world through local service providers.

Health Sustainability Initiative

- Three flagship initiatives (in health innovation, platform technologies and bioproducts) were identified for Life Sciences implementation.
- To support alignment with Alberta's Life Sciences Strategy, a provincial discussion was coordinated on an emerging initiative, Health Innovation Canada, focused on aligning health and economic agendas across Canada. The Ministry also supported the Canada West Health Innovation Council, a similarly-focused organization in western Canada.
- Through AARI, consulted with Alberta Health and Wellness (AHW) regarding the Agriculture Research Strategy's focus on agri-health and value-added products.
- Provided leadership in determining the status of global R&D related to Bovine Spongiform Encephalopathy (BSE) specifically, and to other prion-related diseases more generally.
- Coordinated the provision of external independent scientific assessment of the West Nile Virus response plan to AHW.
- Developed the Alberta Secure Access Service (ASAS), a common, utility-based service where users can be identified, registered, and validated in a single standardized environment. This service is used in the implementation of the Electronic Health Record.

Operational Overview

Chart 1: Key Boards and Agencies

Alberta Innovation and Science
Victor Doerksen, Minister
(780) 427-2501
Alberta Heritage Foundation for Medical Research (AHFMR)
(780) 423-5727
Hartley Hotchkiss, Chair
Dr. Matthew Spence, President and CEO
Alberta Ingenuity Fund (Alberta Heritage Foundation for Science and Engineering Research)
(780) 423-5753
Alvin Libin, Chair
Dr. William Bridges, President and CEO
Alberta Science and Research Authority (ASRA)
(780) 427-1488
Dr. Bob Church, Chair
Barry Mehr, CEO
Alberta Forestry Research Institute (AFRI)
(780) 422-0034
Ivan Strang, MLA and William Hunter, Co-Chairs
Alberta Agricultural Research Institute (AARI)
(780) 427-1956
Hector Goudreau, MLA and Neal Oberg, Co-Chairs
Alberta Energy Research Institute (AERI)
(403) 297-8650
Denis Ducharme, MLA and Len Bolger, Co-Chairs
iCORE Inc.
(403) 210-5335
Dr. Roger Smith, Chair
Dr. Brian Unger, President and CEO
Alberta Research Council Inc. (ARC)
(780) 450-5111
LeRoy Johnson, MLA, Chair
John McDougall, President and CEO

Overview of key boards and agencies:

Alberta Science and Research Authority (ASRA)

ASRA is a provincial corporation comprised of members from Alberta's academic, business and research communities, appointed by provincial Cabinet. ASRA's mission is to enhance the contribution of science and research to the sustainable prosperity and quality of life of all Albertans. In order to fulfill this mission, ASRA functions as the senior science and research advisory body to the Government of Alberta. ASRA includes:

- Alberta Agricultural Research Institute
- Alberta Energy Research Institute
- Alberta Forestry Research Institute
- Alberta Research Council Inc.
- iCORE (Alberta Informatics Circle of Research Excellence) Inc.

Alberta Agricultural Research Institute (AARI)

AARI is an unincorporated board comprised of representatives from industry, academia and government. AARI is the primary agency providing strategic direction in agricultural production and value-added products R&D, and in the coordination of investment in agriculture research for the province.

Alberta Energy Research Institute (AERI)

AERI is an unincorporated board comprised of representatives from industry, academia and government, which provides strategic direction to position Alberta for the future in energy development, and invests in research and technology to enhance the sustainable development of the province's abundant energy resources.

Alberta Forestry Research Institute (AFRI)

AFRI is an unincorporated board comprised of representatives from industry, academia and government, which provides strategic direction for, encourages and supports, private and public investment in the economic, environmental, ecological and community sustainability of Alberta's forestry sector.

Alberta Research Council Inc. (ARC)

ARC is a not-for-profit corporation and a wholly-owned subsidiary of ASRA. ARC is governed by a Board of Directors, including representatives from the business and research communities in Alberta. ARC develops and commercializes technologies to give clients a competitive advantage. A leader in innovation, ARC provides solutions globally to the energy, life sciences, agriculture, environment, forestry and manufacturing sectors.

iCORE Inc.

iCORE is a not-for-profit corporation and a wholly-owned subsidiary of ASRA. iCORE is part of the GoA's strategy to develop the knowledge-based economy of the province by attracting world-class ICT researchers and students to the province. In this way, it is able to enhance the capabilities and capacity of university and industry, and contributes to increasing Alberta's competitiveness in the world in ICT and other sectors. iCORE invests in people who are driven by solving fundamental and applied problems in information technology. In doing so, it creates a critical mass of research leaders focused on improving our future.

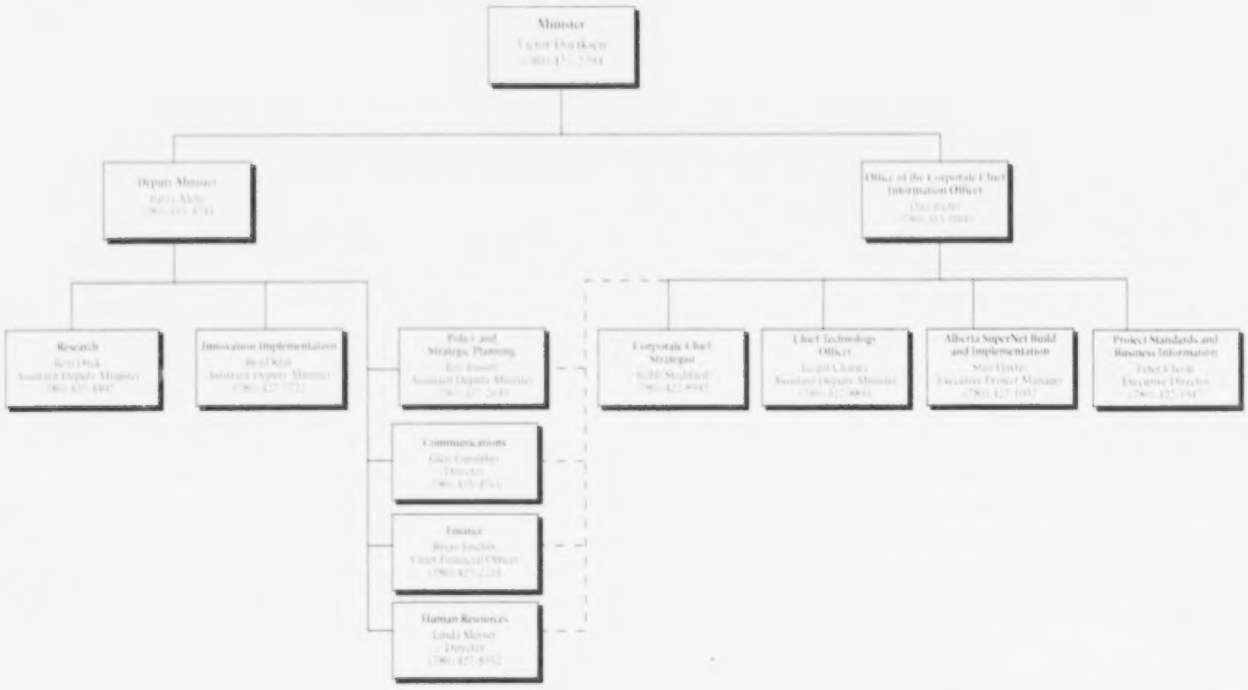
Alberta Heritage Foundation for Medical Research (AHFMR)

Established by the GoA in 1980, AHFMR supports biomedical and health research at Alberta universities, affiliated institutions, and other medical and technology-related institutions. AHFMR is an independent body at arms-length from the Government, but accountable to it, reporting through the Minister of Alberta Innovation and Science.

Alberta Heritage Foundation for Science and Engineering Research (Alberta Ingenuity Fund)

Alberta Ingenuity Fund is the trade name of the Alberta Heritage Foundation for Science and Engineering Research, established by the GoA in 2000, by an Act of the Legislature that provided an initial endowment of $500 million. Alberta Ingenuity is an independent body at arms-length from the Government, but accountable to it, reporting through the Minister of Alberta Innovation and Science. Alberta Ingenuity's mandate is to nurture the discovery of new knowledge and encourage its application to benefit Albertans by supporting a balanced, long-term program of science and engineering research based in Alberta.

Chart 2: Department of Innovation and Science
(as at March 31, 2004)



Overview of Department of Innovation and Science:

In the Fall of 2003, Innovation and Science underwent organizational changes with the appointment of a new Deputy Minister and the appointment of a Deputy Minister-level Corporate Chief Information Officer (Corporate CIO) for the GoA.

Deputy Minister

The Deputy Minister provides leadership to the department, advises the Minister and leads all Ministry activities related to the core business, Research and Development. The Deputy Minister also serves as the Chief Executive Officer of ASRA.

Corporate Chief Information Officer

The Corporate Chief Information Officer provides leadership in strengthening the link between ICT and the government's business objectives at the corporate level and within individual departments. The Corporate CIO also works closely with the Alberta Corporate Service Centre to improve the overall efficiency of government administration, including standardization, rationalization and consolidation of ICT resources across government.

Divisions / Branches that support Core Business 1: Research and Development

The following divisions report to the Deputy Minister and support the achievement of goals under the core business, Research and Development.

Research

The Research Division works with ASRA, AARI, AERI and AFRI to coordinate, support and promote research and development and technology transfer in energy and life sciences (e.g., agriculture, forestry, health). The Research Division includes the following branches:

- Energy Research and Development
- Forestry Research and Development
- Agriculture Research and Development
- Life Sciences

These branches work not only on cross-divisional initiatives but also with many other government departments and agencies in support of an integrated approach to research directions.

Innovation Implementation

The Innovation Implementation Division is responsible for bringing forward knowledge industry issues and creating strategic business and innovation networks between government and industry. The division has two branches: Research and Technology Commercialization (RTC) and the Department Chief Information Officer (DCIO). RTC facilitates local, national and international partnerships between industry, academia, government, and research organizations, targeting market-specific business and research opportunities within the context of multinational enterprises. Specific focus is placed on accelerating technology commercialization and adoption, applied research, and business development in the areas of ICT, biotechnology and pharmaceuticals, and nanotechnology. The DCIO sets the direction for applying information technology strategically to current and emerging business needs within the department to enable program solutions, improve administrative processes and enhance communications. The DCIO is also responsible for leading INNSCI projects aimed at improving efficiency within the department and in prototyping possible cross government applications.

Policy and Strategic Planning

Policy and Strategic Planning supports the Ministry in development of policy and addresses legislative and regulatory issues. This division co-ordinates strategic and business planning, development of performance measures and input to cross ministry and federal / provincial / territorial activities for the department. The division also provides support to the strategic planning activities of ASRA. This division includes the University Research and Strategic Investments branch which administers the Alberta Science and Research Investments Program (ASRIP) and the funding of selected Strategic Research Initiatives approved by the ASRA board.

Communications

Communications provides timely, high-quality strategic communications support and advice (planning, consulting and technical guidance) to the Minister, Deputy Minister, Corporate CIO, management committees and ministry staff for key ministry policies and initiatives. Communications ensures the ministry's messages and services are communicated to Albertans and stakeholders effectively and efficiently.

Finance

The Finance Division provides strategic services in the areas of fiscal planning, financial reporting and general corporate services to the two core business areas of the Ministry: Research and Development; and Corporate ICT. These services are also provided to ASRA including its three research institutes (AARI, AERI, AFRI), various committees, and its two provincial corporations (ARC Inc. and iCORE Inc.). The goal of the Division is to work with the program offices to increase the effectiveness and efficiency of financial management, reporting and accountability within the Ministry.

Human Resources

Human Resources enables and facilitates the achievement of corporate goals by providing strategic human resources advice and practical support to the ministry. Services include developing and implementing a framework for human resources initiatives in such areas as leadership development, succession management, employee attraction/retention, employee learning and recognition. Human Resources priorities align with the Corporate Human Resource Development Strategy.

Divisions / Branches that support Core Business 2: Corporate ICT

The following divisions report to the Corporate CIO and support the achievement of goals under the core business, Corporate Information and Communications Technology. The Corporate CIO also receives corporate support from Policy and Strategic Planning, Communications, Finance and Human Resources, although these divisions / branches formally report to the Deputy Minister.

Corporate Chief Strategist

The Corporate Chief Strategist leads and develops the ICT Strategy and vision for ICT in the GoA. This office helps position the GoA ICT agenda in the broader context of global changes toward e-government and e-business, working with ministries to ensure that corporate and ministry business objectives are aligned and achieved.

Chief Technology Officer

The Chief Technology Officer (CTO) leads the effective and planned use of all forms of ICT (business processes, information, application, technology standards, security, hardware and software) in the GoA. The CTO manages the enterprise architecture framework and promotes breakthrough technology. The CTO is also responsible for utilization of Alberta SuperNet and Telecommunications Operations.

Alberta SuperNet Build and Implementation

SuperNet Build and Implementation is responsible for overseeing all aspects of the construction of Alberta SuperNet across the province. This group tracks the progress of the build and manages technical and financial issues related to the construction and implementation of the network.

Project Standards and Business Information

This division:

- Measures and monitors the value that corporate uses of common technology solutions and infrastructure can provide to the government.
- Develops and maintains business standards and processes to guide procurement and management of ICT services.
- Leads the development of appropriate, meaningful performance indicators and measurements in the effective use and deployment of ICT.
- Provides necessary financial and administrative support to the office of the Corporate CIO to coordinate business plan and budget development, monitoring and reporting.

AUDITOR GENERAL
Alberta

Report of the Auditor General on the Results of Applying Specified Auditing Procedures to Performance Information

To the Members of the Legislative Assembly:

I have performed the following procedures in connection with the Ministry of Innovation and Science's key performance measures and indicators included in the *2003 – 2004 Annual Report of the Ministry of Innovation and Science.*

Key measures

1. Agreed information from an external organization to reports from the organization.
2. Agreed information from reports that originated from organizations included in the consolidated financial statements of the Ministry to source reports. In addition, I tested the procedures used to compile the underlying data into the source reports.
3. Checked that the presentation of results is consistent with the stated methodology.
4. Checked that the results presented are comparable to stated targets, and information presented in prior years.
5. Checked that the key measures, as well as targets, agree to and include results for all of the measures presented in Budget 2003.

Indicators

6. Agreed the information to source reports. In addition, I checked that the supporting narrative is consistent with the information.

As a result of applying the above procedures, I found no exceptions. However, these procedures do not constitute an audit and therefore I express no opinion on the performance information included in the *2003 – 2004 Annual Report of the Ministry of Innovation and Science.*

Fred J. Dunn FCA
Auditor General

Edmonton, Alberta
July 23, 2004

Results Analysis

A Snapshot of Financial Performance
Innovation and Science

Net Operating Results

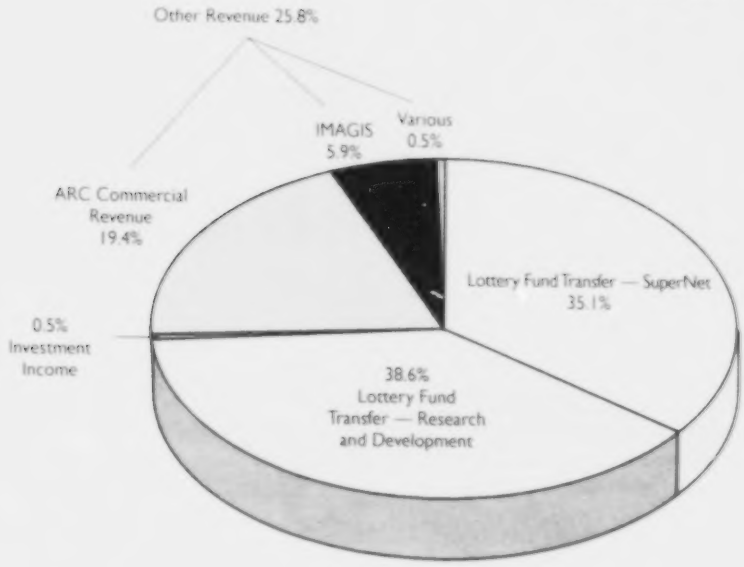
	(In thousands)		
	2003 – 04 Budget	2003 – 04 Actual	2002 – 03 Actual
Revenue			
Internal Government Transfers — Lottery Fund	$ 127,497	$ 127,497	$ 185,144
Investment Income	840	951	931
Other Revenue	65,790	44,559	50,015
	$ 194,127	$ 173,007	$ 236,090
Expenses			
Research and Development	$ 161,991	$ 139,794	$ 139,563
Corporate Information and Communications Technology	49,080	50,001	51,677
Ministry Support Services	7,614	7,475	7,469
Transfer to the Alberta Heritage Science and Engineering Research Endowment Fund	21,430	21,430	—
Writedown of Tangible Capital Assets	—	699	—
Valuation Adjustment — Provision for Vacation Pay	—	—	110
	$ 240,115	$ 219,399	$ 198,819
Loss on Disposal of Capital Assets	$	$	$ 1,061
Net Operating Results	$ (45,988)	$ (46,392)	$ 36,210
Equipment and Inventory Purchases	$ 6,914	$ 6,239	$ 4,897
Capital Investment	$ 58,700	$ 27,729	$ 85,357

Financial results of the Ministry of Innovation and Science for the year ended March 31, 2004 include the activities of the Department of Innovation and Science and ASRA. More detailed information can be found in the Ministry's financial statements (pages 53– 162).

Revenues

Sources of Revenue

Total Revenue: $173.0 million


Other Revenue 25.8%
IMAGIS 5.9%
Various 0.5%
ARC Commercial Revenue 19.4%
Lottery Fund Transfer — SuperNet 35.1%
0.5% Investment Income
38.6% Lottery Fund Transfer — Research and Development

Revenue for the Ministry totaled $173.0 million for 2003 – 04:

- $127.5 million was received through an internal government transfer from the Lottery Fund; $60.7 million for operating expense and capital investment related to the Alberta SuperNet Initiative and $66.8 million for R&D initiatives.
- $0.9 million in investment income due to interest earned on the bank accounts of ASRA and ARC.
- $44.6 million in Other Revenue as follows:
  - $33.5 million in contract revenue for ARC from the provision of research work.
  - $10.3 million in revenue for the provision of IMAGIS (cross-government financial and human resource applications) to government departments and agencies on a charge-back basis.
  - $ 0.8 million in other income (e.g., energy technology/production sales).

Comparison of 2003 – 04 Actual to Budget

Revenues were $21.1 million lower than budgeted primarily due to:

- $19.8 million decrease in contract revenues received by ARC, and
- $1.3 million shortfall in revenues received from participating GoA departments and agencies for IMAGIS.

Comparison of 2003 – 04 Actual to 2002 – 03 Actual

Revenues for the Ministry decreased $63.1 million over 2002 – 03, as a result of:

- $61.1 million decrease in Lottery Fund allocations for SuperNet as less funding is required as SuperNet nears completion.
- $5.5 million decrease in Other Revenue primarily due to the completion of IMAGIS upgrade activities in July 2004 and the shortfall in revenue received for IMAGIS in 2003 – 04. In addition, Alberta Research Council received some one time funding in 2002 – 03 related to royalties, discontinued operations and returned grant funding.
- These decreases were partially offset by a $3.5 million increase in Lottery Fund allocations for R&D initiatives.

Expenses

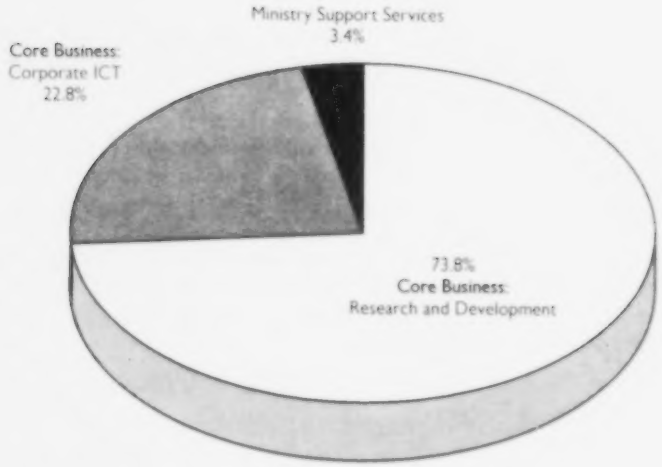
Expense by Function

	(in thousands)		
	2003 – 04 Budget	**2003 – 04 Actuals**	**2002 – 03 Actuals**
Agriculture, Res. Management. & Econ. Dev.	$ 188,913	$ 157,073	$ 144,398
General Government	51,202	62,326	54,421
Total Expense by Function	$ 240,115	$ 219,399	$ 198,819

The consolidated budgets and financial statements of the Province of Alberta classify government expenses by function. The purpose of the definitions is to provide a basis for sound reporting of expense by function according to national standards and for international purposes. Expense by function allocations are used for inter-provincial comparisons and for determining federal funding eligibility. An expense function is defined as a classification that identifies the principal purpose for which an expense is incurred rather than the activity involved. INNSCI expenses are included under the functions: Agriculture, Resource Management and Economic Development; and General Government.

Expenses by Core Business

Total Expenses: $219.4 million



Expenses for the Ministry totaled $219.4 million for 2003 – 04:

- $161.9 million of the Ministry's expenses relate to Core Business 1 — Research and Development:
  - $134.3 million for ASRA grant programs, including:
    - $59.3 million for ARC
    - $37.9 million for modern equipment to support leading-edge research
    - $12.1 million for energy research
    - $9.7 million for iCORE Inc. to build capability in ICT research
    - $8.6 million for agricultural research
    - $4.1 million to facilitate technology commercialization
    - $2.6 million for forestry research
  - $21.4 million for the Transfer to the Alberta Heritage Science and Engineering Research Endowment Fund to build scientific and engineering capability in key areas.
  - $6.2 million for program delivery support.
- $50.0 million for Core Business 2 — Corporate ICT.
- $7.5 million for Ministry Support Services including Minister's Office, Deputy Minister's Office, Office of the Corporate CIO, Policy and Strategic Planning, Finance, Human Resources, Communications and Strategic Management Information Services.

Comparison of 2003 – 04 Actual to Budget

Expenses were $20.7 million lower than budgeted primarily due to decreased spending for ARC as a result of lower than anticipated levels of contract research activity. This reduction in expenses offsets a corresponding decrease in ARC's contract research revenues.

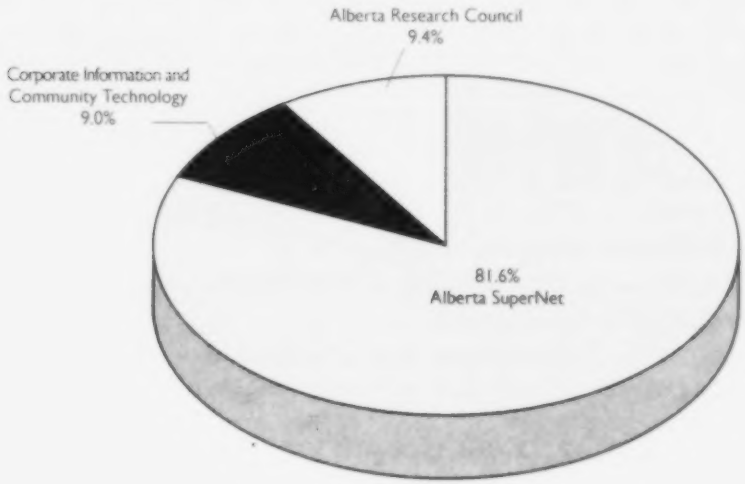
Comparison of 2003 – 04 Actual to 2002 – 03 Actual

Expenses were $20.6 million higher than in 2002 – 03, primarily due to the $21.4 million transfer from INNSCI to the Alberta Heritage Science and Engineering Research Endowment Fund. Market losses reduced the value of the Endowment Fund below the initial investment of $500.0 million. The $21.4 million was intended to bring the Fund's value back to the initial investment by the end of 2003 – 04.

Capital Investment and Equipment & Inventory Purchases (EIP)

Capital Investment and Equipment and Inventory Purchases by Program

Total Capital Investment and EIP: $34.0 million



Capital Investment and EIP

	(In thousands)		
	2003 – 04 Budget	**2003 – 04 Actual**	**2002 – 03 Actual**
Capital Investment			
Alberta SuperNet	$ 58,700	$ 27,729	$ 85,357
EIP			
Information and Communications Technology	3,500	3,050	2,740
Alberta Research Council Inc.	3,414	3,189	2,157
	$ 65,614	$ 33,968	$ 90,254

Capital Investment and EIP for the Ministry totaled $34.0 million for 2003 – 04, as follows:

- $27.7 million for the construction of Alberta SuperNet.
- $3.1 million for Corporate ICT activities (e.g., IMAGIS, computer hardware and software, telecommunications equipment).
- $3.2 million for ARC (e.g., research equipment).

Comparison of 2003 – 04 Actual to Budget

Capital Investment spending was $31.6 million lower than budgeted, primarily due to decreased spending on Alberta SuperNet. Treasury Board has approved the deferral of $31.0 million into 2004 – 05 as a result of changes in the SuperNet implementation schedule.

Comparison of 2003 – 04 Actual to 2002 – 03 Actual

Capital Investment spending was $56.3 million lower than in 2002 – 03, primarily related to changes in the construction schedule of the Alberta SuperNet network and as SuperNet nears completion, less capital funds are required.

What we accomplished in 2003 – 04 — Performance Measure Results

Core Business 1: Research and Development

Core Business Operating Expense = $161.9 million
Core Business Equipment & Inventory Purchases = $3.2 million

Goal 1: To enhance the capability and capacity of Alberta's research system that underlines our goals in areas of strategic priority.

Goal 1 Operating Expense = $59.4 million

Measure 1: Government of Alberta (GoA) Expenditures on Research and Development (ERD) as a percent of Total GoA Expense.

($ millions)	2000 – 01 Actual	2001 – 02 Actual	2002 – 03 Actual	2002 – 03 Target	2003 – 04 Estimate	2003 – 04 Target	2004 – 05 Target	2005 – 06 Target
Total GoA ERD[r]	$197.8	$245.3	$248.8	$215	$249.8	$230	$245	$260
Total GoA[r] Expense	$19,038	$20,845	$20,685	$19,156	$21,883	$19,676	$20,075	$20,075
GoA ERD as a % of GoA Expense	1.04%	1.18%	1.20%	1.12%	1.14%	1.17%	1.22%	1.30%

Sources: Scientific Activities of the Government of Alberta 2002 – 2003 and 2003 – 2004 Estimates Survey Results (Statistics Canada June 2004), and Government of Alberta Annual Reports.

r = Previous results have been revised to reflect a calculation error in the Statistics Canada data (for GoA ERD) and to reflect restated GoA Expense amounts published in subsequent Government of Alberta Annual Reports.

Discussion of Results:

In 2003 – 04, the estimated $249.8 million GoA expenditures on R&D exceeded the target of $230 million. Revised data indicates that Alberta Government annual R&D expenditures since 2001 – 02 have been relatively steady, averaging about $248 million.

During the same period, total GoA expense has been relatively stable, with the exception of an increase in 2003 – 04 of approximately $1.2 billion (6%), primarily due to unforeseen expenses for emergencies/disasters/natural gas rebates. The increased total expense reduced the GoA ERD as a % of GoA Expense to 1.14%, a value just below the target of 1.17%.

This measure is not continued in 2004 – 07. A new measure is being developed that is consistent with the measures used for other goals in the research and development core business.

Measure 2: Alberta's research capability: the success of Alberta's research universities in attracting sponsored research funding (by source).

($ millions)	1998 – 99 Baseline	1999 – 00 Actual	2000 – 01 Actual	2001 – 02 Actual	2002 – 03 Actual	2002 – 03 Target	2003 – 04 Target	2004 – 05 Target	2005 – 06 Target
Federal	86	119	132	190	189	157	171	186	200
Industry	45	43	60	51	44	70	76	83	90
Non-Profit and Other	31	38	47	54	56	50	53	56	61
Other Government	4	8	12	16	18	16	20	22	24
Sub-Total	166	208	251	311	307	293	320	347	375
Provincial	65	92	119	126	127	135	140	145	150
Total ($Millions)	231	300	370	437	434	428	460	492	525

Source: Alberta Innovation and Science report "Research Funding at Alberta Universities 2002 – 03"

Note: Numbers may not add due to rounding.

Discussion of Results:

The 2002 – 03 target was exceeded, even though sponsored research funding fell by $3.3 million in 2002 – 03 to $434.2 million. Sponsored research funding has nearly doubled since 1998 – 99, reflecting the introduction of new programs and the expansion of existing programs, at both the federal and provincial levels. The increase in research revenues is an indicator of Alberta's success at increasing research capability and capacity through attracting and retaining highly qualified researchers, contributing to developing research facilities and funding leading edge equipment.

A significant factor in the slight decrease in 2002 – 03 sponsored research funding was caused by the timing of major grant competitions, such as the Canada Foundation for Innovation (CFI) federal research infrastructure program and the Alberta Science and Research Investments Program (ASRIP), both of which are held every 18 months.

Exceeding the sponsored research revenues target for 2002 – 03 was, in part, due to CFI committing a significant portion of its 10-year allocation to successful projects in 2001 – 02. CFI also introduced the Operating Fund, supporting the operating costs of successful infrastructure projects. These two factors created a spike in sponsored research revenue in 2001 – 02, which has been sustained.

The variance in the performance measure was due in part to a $6.372 million (13% lower than the previous year) decline in industry sponsored research revenue. Historically there are wide fluctuations in industry sponsored research revenue, which is strongly affected by the business climate of specific sectors and the overall health of the economy.

Goal 2: To support energy research that will contribute to Alberta's sustainable prosperity and quality of life.

Goal 2 Operating Expense = $18.7 million

Measure: Leveraged research projects aligned with the goals of the Alberta Energy Research Strategy.

Investment amounts in thousands of dollars	CO2 and Water Management	Oil Sands Upgrading and Value-Added	Clean Coal	Recovery	Alternative Energy	Total
2001 – 2002 Actual[3]						
Total AERI Investment[1]	$1.236	$2.867	$773	$3.514	$573	$8.963
Number of Projects[2]	22	16	6	27	7	78
2002 – 2003 Actual						
Total AERI Investment[1]	$559	$2.133	$415	$3.801	$247	$7.155
Number of Projects[2]	16	15	8	25	6	70
2003 – 2004 Actual						
Total AERI Investment[1]	$826	$2.168	$767	$6.704	$1.598	$12.064
Number of Projects[2]	15	21	6	37	15	94
2003 – 2004 Target						
Total AERI Investment[1]	$1.831	$2.064	$2.759	$3.873	$1.413	$11.940
Number of Projects[2]	8	8	8	20	5	49
2004 – 2005 Target						
Total AERI Investment[1]	$2.331	$2.814	$2.759	$4.623	$2.413	$14.940
Number of Projects[2]	7	6	8	10	8	39
2005 – 2006 Target						
Total AERI Investment[1]	$2.831	$4.064	$3.259	$5.873	$3.913	$19.940
Number of Projects[2]	7	6	10	10	12	45

Sources: Alberta Innovation and Science: Strategic Investments Reporting Database, IMAGIS 7001 reports, and various contracts with funding partners and research performers.

1 For every dollar invested by AERI, $2 or more will be leveraged from a combination of federal and industry sources. Federal and industry funding is projected to increase from $20.4 million in 2001 – 02 to $45 million in 2005 – 06.

2 The number of consortia programs is expected to increase from 4 in 2001 – 02 to 10 in 2005 – 06. The total number of projects is projected to decline because of a greater emphasis on collaborative programs and larger scale pilot and demonstration projects.

3 The investment amount and the number of projects for 2001 – 2002 has been revised. An estimate was inadvertently used in the Ministry 2003 – 2006 business plan.

Discussion of Results:

The column headings in the table above represent the five goals in the Alberta Energy Research Plan that were specifically identified, through consultation with stakeholders, to contribute to Alberta's sustainable prosperity and quality of life. The 2003 – 04 investments by AERI demonstrate a balanced portfolio of projects aligned with the goals of the Alberta Energy Research Plan, which supported the energy priority of ASRA.

In 2003 – 04, every dollar invested by AERI in three major programs (AACI, DOVAP and NCUT) leveraged $3.78 invested by industry and the federal government; calculated as ($22.18 million investment of other partners) divided by ($5.86 million AERI investment). For the other research, development and technology demonstration projects and programs AERI leveraged $2.63 investment by other funding partners for every dollar AERI invested, which exceeded the expected leverage of $2 or more.

There was considerable variance in three strategic areas:

- **CO_2 and Water Management** — Expenditures were lower than originally projected because difficulties inherent in working with many stakeholders delayed a number of large projects. The number of projects was higher than originally projected, because of feasibility and gap-analysis studies needed before making research investment decisions.
- **Clean Coal** — Expenditures were significantly lower than originally projected because the major AERI-supported Canadian Clean Power Coalition (CCPC) project, anticipated to start in 2003 – 04, was delayed — more work is being done to test the technology prior to developing a pilot project at a new field site. In addition, the integration with EnergyINet and CCPC may further delay work on the demonstration plant past 2005 – 06.
- **Recovery** — Expenditures were significantly higher than originally projected because the DOVAP field pilot moved faster than scheduled and spending on this project almost tripled for the year.
- There were more projects than planned because working with multiple stakeholders to develop integrated, collaborative programs required feasibility studies, gap analyses, and technology roadmaps to be completed before making investment decisions. Gap analysis is a formal means to identify and address gaps between desired levels and actual levels of any parameter of interest, such as technology or performance.

Goal 3: To foster excellence in information and communications technology (ICT) research that contributes to Alberta's continued prosperity.

Goal 3 Operating Expense = $12.3 million

Measure: Number of world-class ICT researchers and graduate students attracted to (or retained at) Alberta universities by iCORE Inc.

Year	Total Research Chairs (Major Awards)	Total Graduate Students
2000 – 01 Actual	6	60
2001 – 02 Actual	10	95
2002 – 03 Actual	13	138
2003 – 04 Actual	17[1]	161
2003 – 04 Target	15	135
2004 – 05 Target	17	135
2005 – 06 Target	17	135

Source: iCORE contracts with award recipients.

1 The number of research chairs includes two individuals who each hold two chairs, and also one co-award resulting in two professorships.

Discussion of Results:

iCORE exceeded the targets for attracting and retaining research chairs and graduate students. iCORE has consistently met or exceeded the targets set at the start of the program. There were 4 new research chairs awarded in 2003 – 04 that with the existing 13 made up the total of 17 active research chairs funded by iCORE. There were 75 new awards to graduate students in 2003 – 04 that with the existing award holders made up the total of 161 active graduate students attracted to and retained in Alberta by iCORE support.

Ministry activities, through iCORE Inc. (a wholly-owned subsidiary of ASRA) have a direct impact on the excellence of ICT research through a focus on the attraction, retention, education and support of exceptional researchers. The people funded by iCORE have had a direct impact on the amount of research funding attracted to the province, and the number and quality of graduate students that are drawn to Alberta. High-quality research personnel, and their discoveries, are important components of the growing innovative, knowledge based economy in Alberta, which is considered important for our continued prosperity.

This measure has changed slightly from last year. The number of new awards for research chairs and professors is no longer reported separately, but is included, as it was last year, in the total active awards for research chairs (and professors). The number of graduate students attracted and retained has been added to the measure.

The actual total of 161 graduate students attracted and retained by iCORE in 2003 – 04 exceeded by 19% the target of 135. One reason for the significant positive variance may be the targets, initially established in the 2002 strategic plan, have not been revised. The program was more successful than anticipated.

Key external factors that impact this measure and present challenges include:

- Competing with other jurisdictions to attract Research Chairs with an international reputation of research excellence.
- Industry Chairs require industry partners and there are not many large ICT companies in the province who can fund an Industry Chair.
- Graduate students are first vetted by the Universities, NSERC and the Alberta Ingenuity Fund.

Goal 4: To foster excellence in life sciences research that contributes to Alberta's continued prosperity.

Goal 4 Operating Expense = $25.6 million

A measure for this goal was to be developed.

Growing our Future: An Integrated Life Sciences Strategy for Alberta, was finalized and formally announced by the GoA on March 20, 2003. Subsequently, a new measure *"Ratio of other public and private investments in life sciences research to Innovation and Science investments in life sciences research"* was developed and appears in the 2004 – 07 Ministry business plan.

Goal 5: To foster the growth of knowledge-based industries and establish Alberta as a preferred location for the commercialization of technologies.

Goal 5 Operating Expense = $45.9 million
Equipment & Inventory Purchases = $3.2 million

Measure 1: Employment in the ICT sector in Alberta.

1999 Baseline	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2003 Target	2004 Target	2005 Target	2006 Target
50,300	53,700	56,000	54,500	51,100	62,921	66,696	70,000	74,000

Source: Statistics Canada, Labour Force Survey 2003

Discussion of Results:

In 2003, ICT sector employment in Alberta decreased by approximately 6%. Employment in the sector has been decreasing since 2001. The ICT and other high-technology sectors and their associated development are considered to be at the very heart of knowledge-driven economies. They provide the basis for facilitating global communications and are vitally important as key technology enablers for other emerging sectors.

The largest declines in 2003 were seen in Communications Equipment Manufacturing and Telecommunications, which reflect the closure of Nortel and Sanmina wireless manufacturing facilities (fairly large employers).

This measure has been strongly impacted by a continuing downturn in the global ICT industry and by emerging developments in Asia (e.g. in China and India as outsourcing service providers).

INNSCI is taking action to grow a skilled ICT workforce in Alberta. This is done through iCORE Inc. attracting world-class ICT researchers, as well as through international activities to attract high quality people to the province.

The Alberta Provincial Nominee Program (PNP) is an immigration program administered by Alberta Economic Development that allows the Province of Alberta to choose a limited number of immigrants to meet critical skill shortages being experienced by Alberta employers. The ICT sector is one of the sectors the PNP supports.

Measure 2: Employment in the life sciences sector in Alberta.

2001 Baseline	2002 Actual	2003 Actual	2003 Target	2004 Target	2005 Target	2006 Target
64,400	63,900	70,400	Targets were not developed			

Source: Statistics Canada, Labour Force Survey, 2003, custom tabulation. Previous results have been revised due to an error in the Statistics Canada data file.

Discussion of Results:

Life Sciences employment has grown to 70,400 people in 2003, about 9% over the 2001 baseline figure of 64,400. The ultimate goal of *Growing our Future: An Integrated Life Sciences Strategy for Alberta* is growth in Alberta's life sciences sector that contributes to quality of life and economic prosperity. As a long-term measure, employment growth would indicate growth in Alberta's life sciences sector.

No target was set for this measure. A new measure *"Ratio of other public and private investments in life sciences research to Innovation and Science investments in life sciences research"* was developed and appears in the 2004 – 07 Ministry business plan.

Core Business 2: Corporate ICT

Core Business Operating Expense = $50.0 million
Core Business Equipment & Inventory Purchases = $3.1 million
Core Business Capital Investment = $27.7 million

Goal 6: To strengthen the Alberta Advantage by maximizing the opportunities presented by a province-wide high-speed ICT capacity through Alberta SuperNet.

Goal 6 Operating Expense = $2.6 million
Capital Investment = $27.7 million

Measure 1: Availability of Alberta SuperNet to 422 communities and approximately 4700 stakeholders during the three-year construction period.

1 a) Number of Communities Connected (percent of total communities to be connected).

(cumulative)	2001 – 02 Actual	2002 – 03 Actual	2002 – 03 Target	2003 – 04 Actual	2003 – 04 Target	2004 – 05 Target
Number of Communities	0	6	133	11	356	422
Percent of 422 Scheduled Communities	0%	1.4%	31%	2.6%	84%	100%

Source: Alberta Innovation and Science

1 b) Stakeholders Connected* (including schools, hospitals, libraries and provincial government buildings).

Sites Connected	2001 – 02 Baseline	2002 – 03 Actual	2002 – 03 Target	2003 – 04 Actual	2003 – 04 Target	2004 – 05 Target
Schools	0	28	172	122	1270	2347
Hospitals	0	8	76	35	287	504
Libraries	0	3	22	10	235	305
GOA buildings	0	98	259	267	730	1235

Source: Alberta Innovation and Science. All targets are cumulative.

*Number of stakeholders is preliminary and may be adjusted during the construction of the SuperNet Network. A school, hospital, library or Government of Alberta building is considered to be connected within the fiscal year when it is hooked up to, and functioning on, the SuperNet infrastructure.

Discussion of Results:

The construction of Alberta SuperNet continues to move forward. The purchase of existing fibre optic cable from provincial suppliers has been incorporated into the design and build of the network, allowing significant progress in a short period of time. Seventy-six percent of required conduit is in place and 5,363 kilometers of fiber has been installed within the conduit, enabling the connection of communities to SuperNet. SuperNet's potential is being demonstrated through long distance learning opportunities province-wide, integrated Library System applications, and the Electronic Health System to rural hospitals.

In the Extended Area Network, comprising 395 of the 422 communities, five additional communities were fully connected in 2003 – 04. These communities, La Crete, Fort Vermilion, High Level, Rainbow Lake, and Rocky Lane, were connected as part of the Alberta Learning pilot project 'Rural Advanced Community of Learners' (RACOL) in the Fort Vermilion Region. The 6 communities connected in 2002 – 03 are Rocky Mountain House, Eckville, Sylvan Lake, Leslieville, Condor and Benalto, and comprise Segment 7 of the Extended Area Network.

Difficulties experienced in the working relationship between Bell West and Axia SuperNet resulted in a variance between the target and actual number of communities and stakeholders connected.

Measure 2: The number of government programs/services provided to Albertans that are SuperNet ready.

2001 – 02 Baseline	2002 – 03 Actual	2002 – 03 Target	2003 – 04 Actual	2003 – 04 Target	2004 – 05 Target	2005 – 06 Target
8	31	23	47	38	53	68

Source: Service Alberta Internet site at http://www.servicealberta.ca/pages/onlineservices.asp

Discussion of Results:

The number of transactional government programs and services available to Albertans continues to increase across government. As of March 31, 2004, 16 additional transactional services were available to Albertans through the Service Alberta Internet site at www.servicealberta.ca, for a total of 47 transactional services available on-line in 2003 – 04. These services enable Albertans to do things, including processing vehicle registration renewals online, ordering high school transcripts or documents from the province-wide virtual library catalogue, using the Alberta Personal Income Tax Calculator, obtaining information on current air quality, or accessing information on family day homes and day cares.

These government services will be delivered on the SuperNet infrastructure when completed. This infrastructure will provide Albertans in 422 communities across the province with access to government programs and services at any time of the day. Corporate divisions within the Office of the Corporate CIO continue to support a number of key cross-ministry initiatives, including the Service Alberta Initiative.

Goal 7: The Government of Alberta will be recognized internationally for transforming the delivery of government programs and services through the innovative use of ICT.

Goal 7 Operating Expense = $47.4 million
Equipment & Inventory Purchases = $3.1 million

Measure 1: Implementation of corporate standards.

Standard	2003 – 04 Actual	2003 – 04 Target	2004 – 05 Target	2005 – 06 Target
Office 2000/Windows 2000	100%	100%	100%	100%
Government Web Development				
• Webpage format for data sharing (XML)	100%	100%	100%	100%
Enterprise Architecture				
• Adoption of Domain Architectures	61%	50%	80%	80%
• Compliance process and assessment.	43%	50%	80%	80%
Authentication	N/A	50%	100%	100%

Source: Alberta Innovation and Science, Office of the Corporate Chief Information Officer

N/A = not available

Discussion of Results:

As the Government of Alberta looks at new ways of delivering services and information to Albertans, there is a need to develop sufficient and consistent standards coordinated across government. A cross-government framework will enhance and improve direct service delivery to Albertans by government and its extended stakeholders while containing costs as well as collectively reducing total ICT operation and maintenance costs to government.

Office 2000 / Windows 2000: All ministries were able to meet the minimum workstation standard (a Windows 2000 based operating system and an Office 2000 based office suite) for the 2003 – 04 fiscal year.

Government Web Development: All GoA departments are deemed to be 100% compliant with the XML Standard through their use of corporate applications such as IMAGIS, MyAgent and Outlook. This should not be construed to mean that 100% of each department's Web Applications deploy XML. As the target has been reached, this measure is not continued in the 2004 – 07 ministry business plan.

Enterprise Architecture: A cornerstone of Alberta's pursuit of the transformation of the delivery of government programs and services through innovative uses of ICT is achieved through the development of an "enterprise architecture" that creates an ICT "Building Code" to guide ICT investments across government.

The target for adoption of domain architectures of GAEA's "Building Code" was exceeded. The Office of the Corporate CIO was able to engage and collaborate with clients and stakeholders to achieve acceptance of the models and standards defined by the GAEA "Building Code" as the basis for transforming the delivery of programs and services.

Although the target for compliance process and assessment was not met, progress was made toward acceptance of GAEA management processes by government departments to improve alignment of government investment in ICT. Work was also done to extend the GAEA "Building Code" to privacy-related specifications.

This measure has been modified in the 2004 – 07 ministry business plan and will now measure the percentage of new applications consistent with GAEA guidelines for Enterprise Architecture.

Authentication: Authentication is a critical enabler for the secure delivery of electronic services.

Authentication results were delayed by issues related to the implementation of the Alberta Secure Access Service (ASAS), which was originally scheduled for availability in 2003 – 04. ASAS will be available to ministries later in 2004 – 05, after which adoption of the authentication standard is expected to increase. The Alberta Health and Wellness Electronic Health Record, and the Alberta Learning On-line Transcript Request will be two new applications using this service.

This measure has been modified in the 2004 – 07 ministry business plan to reflect the percentage of new applications that are compliant with the Secure Access Guideline.

Measure 2: ICT Infrastructure Consolidation — Implementation of corporate infrastructure services.

Infrastructure Services	2003 – 04 Actual	2003 – 04 Target Amount Remaining	2004 – 05 Target Amount Remaining	2005 – 06 Target Amount Remaining
Directories	20	35	25	1
E-Mail Systems	14	1	1	1
Number of Servers	2,235*	1,235	1,105	650
Desktop Configurations	27,555*	1,000	500	100
Server Configurations	177*	300	150	50
Server Locations	368*	300	150	10

Source: Alberta Innovation and Science, Office of the Corporate Chief Information Officer.
*Survey results as of June 2004.

Discussion of Results:

Directories: The target for this measure was exceeded as a result of increased ministry participation in the Shared ICT Services Project (GoA Domain). This project was launched to implement several corporate infrastructure services (directory and domain architecture; e-mail services; file and print services; managed desktops; remote access and roaming profile services; and web and application service consolidations).

E-Mail Systems: The target for this measure has not been met, however progress has been made on the Shared ICT Services Project (GoA Domain) that resulted in 2,942 users being migrated to a centralized e-mail service. Although there are two e-mail software products being used in the government, all GoA e-mail systems are interconnected and able to communicate internally and externally.

One of the objectives of the Shared ICT Services Project is to integrate government e-mail systems into one common, standard system (using the Microsoft Outlook software), operate e-mail as a shared service, and enhance the reliability of this service (a government business user productivity benefit). This is a joint initiative between ACSC and INNSCI. In the 2004 – 07 business plan this performance measure is altered by removing the "amount remaining," thus more clearly reflecting the intent to have one corporate e-mail service where all e-mail users and servers are registered in a corporate (shared) directory called the GoA Domain.

Number of Servers: Server optimization encompasses centralizing servers in fewer locations, physically consolidating functions on to fewer machines, consolidating data on to shared storage, and reducing the number of supported server architectures. Over the past two decades, server technologies have proliferated throughout government. Most of the implementations of servers were done in isolation to satisfy specific requirements within program areas and/or government departments.

The target was not achieved based on the following factors:

1. Although there has been a move toward optimization of the government's ICT environment through standardization, rationalization and consolidation of ICT resources, in some cases it was necessary for ministries to purchase additional servers to provide base services, resulting in an increase in overall server count.
2. As the rollout and deployment of Alberta SuperNet continues, high-speed network connections will be provided to support remote server access. SuperNet is also necessary to support Distributed Computing Services (CITRIX) which is a strategy many ministries will use to reduce server counts and locations.

Desktop Configurations: The target for this measure has not been met, however the Shared ICT Services project has standardized 2,327 desktops in the GoA. There are 29,882 desktops/laptops in the GoA. The result for 2003 – 04 was derived by subtracting the number of standardized desktops (2,327) from the total number of desktops/laptops (29,882), thus achieving the result of 27,555 desktop configurations in the GoA.

Ministry participation in the Shared ICT Services Project (GoA Domain) is a cross ministry initiative that will progress through various phases, ultimately resulting in all ministries participating in the consolidation of ICT resources.

In the 2004 – 07 business plan the performance measure for "Desktop Configurations" will present the number of desktops migrated as a result of the Shared ICT Services Project.

Server Configurations: Analysis of server information indicates that there are 177 different Server Configurations within the GoA, well below the target of 300. Achievement of this target can be attributed in part to the Shared ICT Services Project (joint INNSCI & ACSC initiative), the quarterly aggregated desktop/server acquisitions, and the Ministries adoption of corporate infrastructure standards.

Server Locations: While the target was not met, it should be noted that 70% of the GoA servers reside in 32 primary locations, indicating the move toward consolidation of server locations. As the rollout and deployment of Alberta SuperNet continues, high-speed network connections will be provided to support remote server access. SuperNet is also necessary to support Distributed Computing Services (CITRIX) which is a strategy many ministries will use to reduce server counts and locations.

Measures related to Key Corporate Activities

Innovation and Science Employee Satisfaction and Understanding of Contribution.

	2000 – 01 Actual	2001 – 02 Actual	2002 – 03 Actual	2003 – 04 Actual	2003 – 06 Target
Employees who know and understand how their work contributes to the achievement of their department business plan	77%	87%	78%	78%	100%
Percentage of employees who are very/somewhat satisfied with their employment at Innovation and Science/Government of Alberta	88%	88%	83%	84%	95%
Percentage of employees who agree that Innovation and Science provides the support they need to acquire or develop knowledge and skills in their current job	86%	79%	73%	70%	85%
Percentage of employees indicating that their organization provides expected outcomes for their work	68%	62%	61%	62%	85%
Percentage of employees indicating that their organization helps them know and understand how well they are performing	69%	54%	58%	64%	85%

Source: Government of Alberta 2003 Corporate Employee Survey: Results for Innovation and Science Employees. Research Innovations Inc., February 10, 2004.

Discussion of Results:

Targets were not achieved. The targets reflect "stretch" goals for employee satisfaction. It is recognized that significant year-to-year increases are difficult to attain but nonetheless worth striving for, over a number of years.

Results show very modest improvements year-to-year. The department continues to strive to achieve outstanding results in these measures. "Stretch" targets assist in communicating the importance of commitment, at all organizational levels, to meeting targets. There are additional opportunities to engage line managers in striving towards these measures.

Variance:

	2002 – 03	2003 – 04	% Change
Percentage of employees indicating that their organization helps them to know and understand how well they are performing.	58%	64%	+ 10.4%

The significant increase in the percentage of employees indicating the department helps them to know and understand how well they are performing, reflects increased department efforts to ensure that employees have a performance plan and learning plan in place which links their efforts to business plan goals. This result also reflects an increased focus on operational planning within individual business units.

Methodology — Performance Measures

Goal 1

Measure 1: Government of Alberta (GoA) Expenditures on Research and Development (ERD) as a percent of Total Government of Alberta Expense.

The total Government of Alberta Expenditures on R&D (GoA ERD) are obtained from the "Science and Technology: Scientific Activities of the Government of Alberta 2002 – 2003 and 2003 – 2004 Estimates Survey Results" prepared by the Science, Innovation and Electronic Information Division of Statistics Canada. The Total GoA ERD is found in *Table 5: Total expenditures on R&D, by department or agency, 1995 – 96 to 2003 – 2004 estimates*, page 22. All departments were surveyed in September of 2003 and were required to provide actuals for 2002 – 03 and Estimates for 2003 – 04 (the current fiscal year, which had not yet ended). Therefore, as a result of survey timing, the results for the most recent fiscal year (2003 – 04) are "Estimates".

Total GoA Expense figures come directly from audited GoA Annual Reports. The amounts are Actual Total Expense figures that appear in the "Fiscal Summary" section of each annual report. When a restated figure is issued in the subsequent annual report, that figure is used.

GoA ERD as a percentage of Total GoA Expense is derived by dividing GoA ERD by GoA Expense and multiplying the result by 100. The figure for 2003 – 04 is an estimate because it is based upon an estimate of GoA ERD.

Measure 2: Alberta's research capability: the success of Alberta's research universities in attracting sponsored research funding (by source).

The data is based on sponsored research at four universities; the U of A, the U of C, the U of L and Athabasca University. The data is compiled and organized by the University Research and Strategic Investments Branch, INNSCI. This group provides the research offices of the four universities in Alberta with a template and guidelines for the information required and specific instructions for what should and should not be included from a particular grant source category to ensure the information provided is comparable.

The universities complete the template with data from financial statements and forward the completed templates to INNSCI. The specific source of the university information is a financial statement's supplementary schedule, which has not necessarily been audited. We expect, and rely on, the Universities to supply the correct information and do not independently verify that the figures are accurate. INNSCI does not request the source documents the universities used in completing the document.

Goal 2

Measure: Leveraged research projects aligned with the goals of the Alberta Energy Research Strategy.

Numbers presented in the table are solely the AERI share of project funding, there is no in-kind or third party funding included. The funds presented in the table are not solely for research, but also include research management activities, such as Program Directors budgets and feasibility studies, which are included as projects. The research management funding is not expected to leverage other funding and is not used in the leverage calculation.

2003 – 04 data is tested against actual expenditures in the year as provided by IMAGIS. The information is audited. For calculating leverage the data source for the contribution of funding partners was various research project contracts. We report only direct leverage, a term that indicates AERI funding contribution is needed in order for the proposed research to be done. Indirect leverage is a term indicating that proposed research would proceed without AERI contribution as a minor funding partner in a larger consortium of major contributors.

Goal 3

Measure: Number of world-class ICT researchers and graduate students attracted to (or retained at) Alberta universities by iCORE Inc.

The data for measures are from the contracts that iCORE has with the Universities to fund the Major Awards and Graduate Student Awards. iCORE also publishes its own more detailed Performance Measure report from which these measures are derived.

iCORE receives its data from the following sources:

1. Every Research Chair must submit a detailed annual report every June with counts and details of approximately 25 reporting variables that report on the previous fiscal year.
2. Every summer, iCORE surveys all of its graduate student scholarship recipients (past and present) for their education and employment status.

iCORE has board-approved criteria and processes for making graduate student awards. For each graduate student, the criteria are checked and the award is made.

iCORE submits its compilation of data in the format needed by INNSCI. INNSCI Management then reviews the data before the respective report is finalized.

Goal 5

Measure 1: Employment in the ICT sector in Alberta.

Labour Force Survey data are obtained from Statistics Canada (provincial annual average employment figures corresponding with the definition of the ICT sector, below).

Results are based on the Labour Force Survey in which 5,370 households are surveyed each month in Alberta. Only annual averages appear in this measure. Detailed information about the methodology for the survey can be found in the Guide to the Labour Force Survey — this document can be accessed on the Statistics Canada website at: http://www.statcan.ca:8096/bsolc/english/bsolc?catno=71-543-G

Definition of the ICT Sector: by North American Industry Classification System code:

3341 — Computer & Peripheral Equipment Manufacturing

3342 — Communications Equipment Manufacturing

3343 — Audio & Video Equipment Manufacturing

3344 — Semiconductor & Other Electronic Component Manufacturing

3345 — Navigational, Medical & Control Instruments Manufacturing

5112 — Software Publishers

5132 — Pay TV, Specialty TV & Program Distribution

5133 — Telecommunications

5141 — Information Services

5142 — Data Processing Services

5415 — Computer Systems Design & Related Services

8112 — Electronic & Precision Equipment. Repair & Maintenance

Measure 2: Employment in the life sciences sector in Alberta.

Labour Force Survey data are obtained from Statistics Canada (provincial annual average employment figures corresponding with the definition of the Life Sciences sector, below).

Results are based on the Labour Force Survey, details same as provided above for previous measure.

Definition of the Life Sciences Sector: by Standard Occupational Code (SOC).

C02 — Life Sciences Professionals

C12 — Technical Occupations in Life Sciences

D01 — Physicians, Dentists and Veterinarians

D02 — Optometrists, Chiropractors and Other Health Diagnosing and Treating Professionals

D03 — Pharmacists, Dieticians, Nutritionists

D04 — Therapy and Assessment Professionals

D11 — Nurse Supervisors and Registered Nurses

D21 — Medical Technologists and Technicians (excluding Dental Health)

D22 — Technical Occupations in Dental Health

D23 — Other Technical Occupations In Health Care (Except Dental Health)

Goal 6

Measure 1: Availability of Alberta SuperNet to 422 communities and approximately 4700 stakeholders during the three-year construction period.

1 a). Number of Communities Connected (percent of total communities to be connected).

1 b). Stakeholders Connected (including schools, hospitals, libraries and provincial government buildings).

Alberta SuperNet is comprised of the Extended and Base Area Networks. The Extended Area Network is the Government owned area of the Network. A Rollout schedule was provided by Bell West in February 2002. Since that time, revised schedule proposals have been submitted by Bell West to recover delays in construction. The SuperNet Build Team reviews each proposal and tracks Bell West's progress against them. As of March 31, 2004, progress was being consistently demonstrated.

The Base Area Network is financed by and will be owned by Bell West, and is therefore their responsibility to complete. To date progress has been significantly behind scheduled estimates.

Community Connection Targets are based on scheduled Segment Substantial Completion dates provided by Bell West in their Schedule Proposals. A Segment is a logical geographical grouping of communities within the Network, and Segments are considered to be Substantially Complete when all construction and testing has been completed, and the communities are ready to be turned operational.

The number of 4700 was derived from the number of stakeholders eligible for connection to Alberta SuperNet. As construction continues, communication with these stakeholders will continue to confirm connection to SuperNet. The number of 4700 stakeholders in approximately 3100 buildings will fluctuate as the build continues.

The Alberta SuperNet Build Team maintains a database and processes that track individual stakeholders. Information is shared with both Construction and Operations Prime Subcontractors.

Measure 2: The number of government programs/services provided to Albertans that are SuperNet ready.

The number of services available through the Service Alberta Web site was counted to obtain the 2003 – 04 actual (http://www.servicealberta.ca/pages/onlineservices.asp). Transactional services were defined to consist of some form of interaction between the client and the on-line service and are defined as allowing Albertans to: retrieve information based on variables they enter on the system, apply for a service, pay for a service, check the status of a service, and/or receive notification of approval/denial of a service, and order documents or publications on-line.

Although Albertans can access Federal on-line transactional services through Service Alberta, these are not included in the total counts of on-line services. This measure focuses on provincial on-line transactional services that Albertans can access.

In previous counts (2002 – 03), the Human Rights Information Service and the Ordering of Human Rights Publications and Other Resources were counted as one service available. It has been determined that these are two separate services available and therefore both services have been included in the count for 2003 – 04.

Goal 7

Measure 1: Implementation of corporate standards.

Office 2000 / Windows 2000: The number of workstations for 2003 – 04 increased to 29,626, due to growth in the Alberta public service.

The workstation count was derived using three sources.

1. The June 2004 ICT Service Coordinator Resource Baseline Template (primary source).
2. The January 2004 ICT Service Coordinator Data Gathering Workbook (secondary source).
3. The January 2003 Office 2000 /Windows 2000 survey completed by each government ministry (tertiary source).

Government Web Development: Once GoA Standards are established, departments/entities are expected to implement them on a go forward basis, i.e. standards are not applicable to previously developed applications. Departments/entities may be exempted from a given standard where a valid business case supports the exemption, or where the department/entity is ruled at arms length from the GoA and need not comply with GoA Standards, i.e. boards, agencies.

Enterprise Architecture: An architecture is a guideline through which common usage, analysis or recommendation, has become an accepted method of work or performance. GAEA is a new program that as the ICT "Building Code," is creating high-level corporate standards, and defining corporate models, standards and guidelines that describe how to implement systems in a quality, consistent, strategically aligned and integrated manner.

There are two aspects in determining the increasing levels of GoA-wide acceptance of GAEA.

Adoption of domain architectures refers to the degree of acceptance by GoA departments of the models and standards defined in the GAEA "Building Code".

Compliance process and assessment refers to the degree of acceptance by GoA departments of the proposed GAEA management processes as a way to improve the alignment of the GoA's ICT investment and design decisions with the GAEA "Building Code".

A computer-generated log records GoA department accesses of the content in the SHARP website. The results for 2003 – 04 were determined through the selection of log records that relate only to GAEA, then the selection of those records with a 2003 – 04 date. These results were then separated into the content relating to the Adoption of Domain Architectures and the content relating to the Compliance Process and Assessment component of the measure.

Summary reports were then produced that flagged those departments for which the number or accesses exceeds a threshold which indicates a significant amount of activity. The departments of the GoA were used in addition to ACSC being included as a separate department. The threshold is defined as those departments with counts of 100 or greater in accessing SHARP.

For the Adoption of Domain Architectures the number of flags (14) in the report was divided by the number of applicable departments (23). For Compliance process and assessment, the number of flags (10) was divided by the applicable departments (23).

Authentication: An authentication standard includes simplified (single) login, electronic signatures, access control to the various applications and integration into Service Alberta. This measure has been modified in the 2004 – 07 ministry business plan to measure the percentage of new applications compliant with the Secure Access Guideline.

Measure 2: ICT Infrastructure Consolidation — Implementation of corporate infrastructure services.

Directories: The number of directories is based on those ministries using the GoA e-mail standard (Exchange). The count is based on the number of MailConnect directory entries. The MailConnect directory entries are maintained by ACSC. Six ministries multiplied by two directories equals 12 directories. There are eight ministries that use Exchange 2000, for these ministries, there is only one directory for both the network and e-mail. Twelve directories plus eight directories, is a total of 20 Directories.

E-Mail Systems: The count of existing government e-mail systems is based on the number of MailConnect directory entries. The MailConnect directory entries are maintained by ACSC.

Number of Servers: Ministry CIOs were surveyed as part of the ICT Service Coordinator Initiative (ICT SCI). They were asked to identify the server equipment being used within their ministries. The Information Communications Technology Service Coordinator Initiative Data Gathering Team assessed the information provided by the ministries.

Desktop Configurations: The number of desktops migrated to the GOA Domain as a result of the Shared ICT Services Project provided the numbers for this measure.

"Desktop Configuration" encompasses the desktop hardware, the desktop operating system, the desktop build, and the desktop management practices.

Server Configurations: Configuration refers to the hardware, operating systems and software that are assembled on a given server or workstation. Ministry CIOs were surveyed as part of the ICT SCI. They were asked to identify the server equipment being used within their ministries. The information provided by the ministries was assessed by the ICT SCI Data Gathering Team.

Server Locations: The comprehensive Data Gathering project completed to support the ICT SCI provided the data on different server locations in the GoA. Although there are other sources of server counts, only the Data Gathering project provided information regarding their physical location.

Key Corporate Activities

Measure: Innovation and Science Employee Satisfaction and Understanding of Contribution.

All aspects of the survey are designed and administered by an external survey firm (Research Innovations Inc.) in consultation with the Personnel Administration Office. Survey results are accurate within plus/minus 5%, at 95% confidence level. The information is not audited.

Detailed information about the survey methodology can be found in the source document, *Government of Alberta 2003 Corporate Employee Survey: Results for Innovation and Science Employees* (Research Innovations Inc.).

Financial Information

Financial Statements
March 31, 2004

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MINISTRY OF INNOVATION AND SCIENCE
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

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AUDITOR GENERAL
Alberta

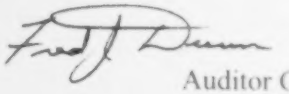
Auditor's Report

To the Members of the Legislative Assembly

I have audited the consolidated statement of financial position of the Ministry of Innovation and Science as at March 31, 2004 and the consolidated statements of operations and cash flow for the year then ended. These financial statements are the responsibility of the management of the Ministry. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Ministry as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



FCA
Auditor General

Edmonton, Alberta
May 21, 2004

MINISTRY OF INNOVATION AND SCIENCE

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2004

(In thousands)

	2004 Budget	2004 Actual	2003 Actual
REVENUES (Note 2)			
Internal Government Transfers	$ 127,497	$ 127,497	$ 185,144
Investment Income	840	951	931
Other Revenue	65,790	44,559	49,614
Revenue from Discontinued Operations (Note 3)	-	-	401
Total REVENUES	194,127	173,007	236,090
EXPENSES- Directly Incurred (Note 2)			
Program			
Alberta Science and Research Authority (ASRA):			
Energy (includes Climate Change Action Plan)			
Alberta Energy Research Institute	11,940	12,056	6,855
Life Sciences			
Alberta Agricultural Research Institute	8,875	8,609	9,117
Alberta Forestry Research Institute	2,060	2,598	1,775
Information and Communications Technology (ICT)			
iCORE Inc. (Informatics Circle of Research Excellence)	10,000	9,737	10,051
Technology Commercialization Initiatives	1,500	1,500	1,500
Investing in Research Capacity			
Alberta Science & Research Investments Program	39,222	37,949	40,567
Technology Business Development & Commercialization			
Technology Commercialization Initiatives	2,175	2,553	2,030
ARC Inc. - Research funded by ASRA	27,135	27,135	26,575
ARC Inc. - Contract Research	53,467	31,497	33,805
Operations and Policy Implementation	5,617	6,160	5,728
Corporate Information and Communications Technology	47,080	47,440	48,587
Alberta SuperNet	2,000	2,561	3,090
Ministry Support Services	7,614	7,475	7,469
Total Program Expenses	218,685	197,270	197,149
Other Expenses			
Transfer to the Alberta Heritage Science and Engineering Research Endowment Fund	21,430	21,430	-
Writedown of Tangible Capital Assets (Note 8)	-	699	-
Valuation Adjustment - Provision for Vacation Pay	-	-	110
Expenses from Discontinued Operations (Note 3)	-	-	1,560
Total Other Expenses	21,430	22,129	1,670
Total EXPENSES	240,115	219,399	198,819
OTHER			
Loss on Disposal of Tangible Capital Assets of Discontinued Operations (Note 3)	-	-	1,035
Loss on Disposal of Tangible Capital Assets	-	-	26
Total OTHER	-	-	1,061
NET OPERATING RESULTS	$ (45,988)	$ (46,392)	$ 36,210

The accompanying notes and schedules are part of these financial statements.

MINISTRY OF INNOVATION AND SCIENCE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2004

(In thousands)

	2004	2003
ASSETS		
Cash (Note 4)	$ 16,362	$ 25,839
Restricted Cash (Note 4)	1,361	1,295
Marketable Securities (Note 5)	775	762
Accounts Receivable (Note 6)	10,830	12,340
	29,328	40,236
Long-Term Investments (Note 7)	-	250
Tangible Capital Assets (Note 8)	185,950	162,418
	$ 215,278	$ 202,904
LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 21,540	$ 75,574
Holdback Liability	4,412	4,837
Unearned Revenue	3,837	3,502
Deferred Contributions (Note 9)	1,361	1,295
Current Portion of Long-Term Debt (Note 11)	423	401
	31,573	85,609
Long-Term Debt (Note 11)	721	1,145
Accumulated Provision for Project Abandonment (Note 12)	1,186	1,200
	33,480	87,954
NET ASSETS		
Net Assets, Beginning of Year	114,950	86,991
Net Operating Results	(46,392)	36,210
Transfer from Government Services (Note 10)	4,786	-
Net Transfers (to) from General Revenue	108,454	(8,251)
Net Assets, End of Year	181,798	114,950
	$ 215,278	$ 202,904

The accompanying notes and schedules are part of these financial statements.

MINISTRY OF INNOVATION AND SCIENCE

CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED MARCH 31, 2004

(In thousands)

	2004	2003
OPERATING TRANSACTIONS		
Net Operating Results	$ (46,392)	$ 36,210
Non-Cash Items:		
Amortization	7,867	8,564
Loss on Disposal of Tangible Capital Assets	-	1,061
Valuation Adjustments	-	1,670
Write down of Long Term Investments	250	-
Impairment of Tangible Capital Assets	699	-
Purchase of Marketable Securities	(322)	(432)
Gain on Sale of Marketable Securities	(567)	-
Proceeds from Sale of Marketable Securities	876	-
	(37,589)	47,073
Decrease in Advances	-	3,900
Increase in Current Portion of Long Term Debt	22	6
Decrease in Accounts Receivable	1,510	4,743
(Decrease) / Increase in Accounts Payable and Accrued Liabilities	(54,034)	46,003
(Decrease) / Increase in Holdback Liability	(425)	1,068
Increase in Unearned Revenue	335	486
Increase in Deferred Contributions	66	99
Decrease in Accumulated Provision for Project Abandonment	(14)	(267)
CASH PROVIDED (APPLIED TO) BY OPERATING TRANSACTIONS [1]	(90,129)	103,111
CAPITAL TRANSACTIONS		
Acquisition of Tangible Capital Assets (Schedule 2)	(33,968)	(90,254)
Tangible Capital Assets Transferred to Other Ministries	2,341	1,877
Tangible Capital Assets Transferred from Other Ministries	(491)	(40)
Proceeds from Disposal of Tangible Capital Assets [1]	20	64
CASH PROVIDED (APPLIED TO) BY CAPITAL TRANSACTIONS	(32,098)	(88,353)
INVESTING TRANSACTIONS		
Increase in Restricted Cash	(66)	(99)
Repayment of Long Term Debt	(424)	(410)
CASH PROVIDED (APPLIED TO) BY INVESTING TRANSACTIONS	(490)	(509)
FINANCING TRANSACTIONS		
Transfer from Government Services	4,786	-
Net Transfers (to) from General Revenue	108,454	(8,251)
CASH PROVIDED (APPLIED TO) BY FINANCING TRANSACTIONS	113,240	(8,251)
INCREASE (DECREASE) IN CASH	(9,477)	5,998
CASH, BEGINNING OF YEAR	25,839	19,841
CASH, END OF YEAR	$ 16,362	$ 25,839

The accompanying notes and schedules are part of these financial statements.

[1] Cash used by operating transactions in 2002-03 includes $2,194 from discontinued operations.
Proceeds from Disposal of Tangible Capital Assets includes $56 from discontinued operations.

MINISTRY OF INNOVATION AND SCIENCE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

Note 1 Authority and Purpose

The *Government Organization Act* and its regulations have designated the Minister of Innovation and Science as responsible for various Acts. To fulfil these responsibilities, the Minister administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Innovation and Science.

Organization:	Authority:
Department of Innovation and Science	*Government Organization Act*
Alberta Science and Research Authority	*Alberta Science and Research Authority Act*
Alberta Research Council Inc. including its wholly owned subsidiary C-FER Technologies (1999) Inc.	*Alberta Science and Research Authority Act*
iCORE Inc.	*Alberta Science and Research Authority Act*

The purpose of the Ministry of Innovation and Science (the Ministry) is to:

- enhance the contribution of science, research, development and commercialization to the sustainable prosperity and quality of life of all Albertans; and
- provide strategic leadership and direction in the innovative and cost-effective use of Information Communications and Technology to improve the efficiency of government program delivery and administration.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate. These financial statements are prepared in accordance with the following accounting policies that have been established by government for all Ministries.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

a) Reporting Entity

The reporting entity is the Ministry of Innovation & Science (Ministry) and includes the operations of the Department of Innovation & Science and the Alberta Science and Research Authority, including its subsidiaries the Alberta Research Council Inc. and iCORE Inc. The financial statements for the individual entities provide more detailed information about the operations of each entity.

The Alberta Heritage Foundation for Science and Engineering Research (AHFSER) and the Alberta Heritage Foundation for Medical Research (AHFMR) and its subsidiary the Alberta Foundation for Health Research (AFHR) are required to forward a copy of their annual reports to the Minister for tabling in the Legislature. However, the financial statements of AHFSER, AHFMR and AFHR are not consolidated in these financial statements.

b) Method of Consolidation

The activities of the entities within the Ministry are consolidated after adjusting them to a basis consistent with the accounting policies described below in (c). Revenue and expense transactions, investing and financing transactions, and related asset and liability accounts between consolidated entities have been eliminated.

c) Basis of Financial Reporting

Revenues - All revenues are reported on the accrual method of accounting. Cash received for which goods or services have not been provided by year-end is recorded as unearned revenue.

Royalties and licensing fee revenues are recognized when the amounts can be reasonably estimated and there is reasonable assurance of collectability of proceeds.

Internal Government Transfers - Internal government transfers are transfers between entities within the government reporting entity where the entity making the transfer does not receive any goods or services directly in return.

Dedicated Revenue - Dedicated revenue initiatives provide a basis for authorizing spending. Dedicated revenues are shown as credits or recoveries in the details of the Government Estimates for a supply vote. If actual dedicated revenues are less than budget and total voted expenses are not reduced by an amount sufficient to cover the deficiency in dedicated revenues, the following year's voted expenses are encumbered. If actual dedicated revenues exceed budget, the Ministry may, with the approval of the Treasury Board, use the excess revenue to fund additional expenses on the program.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

c) Basis of Financial Reporting (cont'd)

Expenses

Grants – Grants are recorded as expenses when authorized and when all eligibility conditions have been satisfied.

Directly Incurred - Directly incurred expenses are those costs the Ministry has primary responsibility and accountability for, as reflected in the government's budget documents.

In addition to program expenses such as salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets.
- pension costs, which comprise the cost of employer contributions for current service of employees during the year.
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay, guarantees and indemnities.

Incurred by Others - Services contributed by other entities in support of Ministry operations are disclosed in Schedule 4.

Assets - Financial assets of the Ministry include financial claims, such as advances to and receivables from other organizations, employees and other individuals.

The fair values of marketable securities are estimated to approximate their carrying values.

Assets acquired by right are not included in these statements. Tangible capital assets of the Ministry are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets.

Expenses for patents owned by the Ministry as a result of research activity are not capitalized due to the uncertain value of benefits that may accrue to the Ministry.

Expenses on the acquisition or development of other intangible assets including intellectual capital are not capitalized as currently there is no acceptable methodology for measuring the value of future benefits accruing to the Ministry.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

c) Basis of Financial Reporting (cont'd)

Liabilities - Liabilities represent all financial claims payable by the Ministry at fiscal year end. Under certain joint participation agreements the Ministry will incur certain costs when projects are abandoned.

Net Assets - Net assets represent the difference between the value of assets held by the Ministry and its liabilities.

Valuation of Financial Assets and Liabilities - Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of cash, restricted cash, marketable securities, accounts receivable, accounts payable, accrued liabilities, holdback liability and unearned revenue are estimated to approximate their book values because of the short-term nature of these instruments.

The fair value of long-term investments approximate cost due to the long-term nature of the investments.

The fair value of long-term debt approximates its carrying value as interest rates approximate the market rate.

Note 3 Discontinued Operations
(In thousands)

On November 4, 2002, Alberta Research Council Inc. discontinued and sold the assets of its ZiMARC business unit.

The loss on discontinued operations is as follows:

	2004	2003
Revenue	$ -	$ 401
Expense	-	1,560
Operating loss from discontinued operations	-	(1,159)
Loss on disposal of capital assets	-	(1,035)
	$ -	$ (2,194)

Note 4 **Cash**
(In thousands)

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Minister of Finance administers the Fund. All cash receipts of the Department of Innovation and Science are deposited into the Fund and all cash disbursements made by the Department of Innovation and Science are paid from the Fund. Net transfer to/from General Revenues is the difference between all cash receipts and all cash disbursements made.

Cash consists primarily of the Alberta Science and Research Authority and its subsidiaries deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is invested primarily in short-term and mid-term fixed income securities with a maximum term to maturity of three years. Due to the short-term nature of the CCITF investments, the carrying value approximates fair value. Interest is earned on the daily cash balance at the average rate of earnings of the CCITF, which varies depending on prevailing market interest rates.

Interest of $951 (2003 – $931) earned on the cash balance of the Ministry's remaining CCITF accounts has been credited to the accounts and is reported in these financial statements.

The Ministry has a Restricted Cash balance of $1,361 (2003 - $1,295) related to specific research project and programs as disclosed in Note 9.

Note 5 **Marketable Securities**
(In thousands)

As at March 31, 2004, the Ministry had marketable securities of $775 (2003 - $762). Marketable securities are an investment in shares of a private company; the current market value is $1,090 (2003 - $984).

Note 6 Accounts Receivable

(In thousands)

	2004			2003
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
Commercial	$ 10,556	$ 646	$ 9,910	$ 10,818
Accountable Advances	3	-	3	4
Alberta Government Departments and Agencies	917	-	917	1,518
	$ 11,476	$ 646	$ 10,830	$ 12,340

Accounts receivable are unsecured and non-interest bearing.

Note 7 Long-Term Investments

(In thousands)

	2004	2003
Investment in shares of public companies	$ 1,385	$ 1,315
Investment in shares of private companies	-	250
	1,385	1,565
Provision for impairment in value	(1,385)	(1,315)
	$ -	$ 250

During the year, the Alberta Research Council Inc. provided $425 (2003 - $760) of services in exchange for shares and warrants (see Note 14) of a public company.

Note 8 **Tangible Capital Assets**
(In thousands)

	Estimated Useful Life	2004 Cost	2004 Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
Land	Indefinite	$ 566	$ -	$ 566	$ 566
Building	30 years	2,106	374	1,732	1,800
Equipment - SuperNet [1]	3 to 20 years	152,079	-	152,079	124,350
Equipment - Other [2]	3 to 20 years	57,953	43,167	14,786	14,161
Computer Hardware / Software [3]	3 to 5 years	37,190	25,630	11,560	15,204
Other	25 years	9,287	4,060	5,227	6,337
		$ 259,181	$ 73,231	$ 185,950	$ 162,418

(1) Capital costs are recorded as work in progress.

(2) Equipment also includes furniture and fixtures.

Alberta Research Council Inc. owns equipment that is no longer capable of performing the functions for which it was purchased. As a result, Alberta Research Council Inc. has reduced the net book value of this unit by $699 to be equivalent to that of similar equipment performing the same functions. This was done using current quoted market prices.

(3) Includes all development costs incurred by the Ministry in the implementation of the Alberta Government Integrated Management Information System (IMAGIS). The cost of each module is amortized over a 10-year useful life. Updates to newer versions of PeopleSoft, the IMAGIS software platform, are expensed in the year incurred.

Note 9 Deferred Contributions
(In thousands)

Deferred Contributions $1,361 (2003- $1,295) represents unspent contributions that are subject to externally imposed restrictions related to specific research projects or programs.

	2004	2003
Alberta Agricultural Research Institute Development Programs	$ 854	$ 751
Alberta Research Council Inc. Canadian International Development Agency Project	507	544
	$ 1,361	$ 1,295

Note 10 Government Restructuring

As a result of government restructuring effective April 1, 2003, the following changed in the responsibility of the Ministry:

- Alberta Records Centre, Network Operations, and Shared Network Services were transferred from the Ministry of Innovation and Science to Alberta Government Services.
- The responsibility for funding the National Institute of Nanotechnology was transferred from the Department of Health and Wellness to Alberta Innovation and Science.

Comparatives for 2003 have been restated as if the Ministry had always been assigned its current responsibilities.

Note 11 **Long-Term Debt**
(In thousands)

	2004	2003
5.45% mortgage, payable in monthly installments of $40 including interest, due October 1, 2004.	$ 1,144	$ 1,546
Less current portion	423	401
	$ 721	$ 1,145

A demand debenture has been pledged as collateral for the mortgage including:

- a fixed charge over land, building and equipment with a net book value of $3,172 (2003 – $3,247),
- a floating charge over other assets,
- an assignment of insurance proceeds, and
- a general security agreement registered under the *Personal Property Security Act* creating a floating charge over all property and assets, both present and future.

The following estimated principal repayments during the next five years and in total are based on the assumption that the mortgage will be renewed under similar terms and conditions:

Year	Repayments
2005	423
2006	447
2007	274
	$ 1,144

Note 12 **Accumulated Provision for Future Project Abandonment**
(In thousands)

Under joint participation agreements, the Ministry will incur certain costs when wells and experimental projects are abandoned. Management's estimate of costs for future abandonment is $1,186 (2003 – $1,200).

Note 13 Commitments
(In thousands)

	2004	2003
SuperNet	$ 40,921	$ 68,650
Research Grants	75,728	96,975
Telecommunications Service Contracts [1]	105,968	135,477
General Service Contracts	452	6,703
	$ 223,069	$ 307,805

[1] The Government of Alberta's commitment to Bell West for telecommunication services is $94,086 (2003 - $117,602), over a ten year term.

a) Leases

The Ministry leases certain equipment under operating leases that expire on various dates to 2008. The aggregate amount payable for the unexpired terms of these leases is as follows:

Year	Amount
2005	95
2006	71
2007	30
2008	4
	$ 200

Note 14 Warrants and Options

As part of the consideration for granting various licenses, the Ministry (through the Alberta Research Council Inc.) has received a number of options and warrants to acquire common shares of public companies.

The Alberta Research Council Inc. is subject to market risk with these stock options and warrants. As a result, the value of these financial instruments will fluctuate as a result of changes in market prices.

Note 15 Contingencies
(In thousands)

At March 31, 2004, the Ministry is a defendant in two legal claims (2003 – two legal claims). All of these claims have specified amounts totalling $52,200 (2003 – $52,200). The resulting loss, if any, for these claims cannot be determined.

Note 16 Defined Benefit Plans
(In thousands)

The Ministry participates in the multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Ministry also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $3,277 for the year ending March 31, 2004 (2003 – $3,019).

At December 31, 2003, the Management Employees Pension Plan reported a deficiency of $290,014 (2002 – $301,968) and the Public Service Pension Plan reported an actuarial deficiency of $596,213 (2002 – $175,528). At December 31, 2003, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $9,312 (2002 – $6,472).

The Ministry also participates in two multi-employer Long-Term Disability Income Continuance Plans. At March 31, 2004, the Bargaining Unit Plan reported an actuarial deficiency of $9,766 (2003 – $14,434) and the Management, Opted Out and Excluded Plan an actuarial surplus of $1,298 (2003 – actuarial deficiency of $3,053). The expense for these two plans is limited to employer's annual contributions for the year.

Note 17 Comparative Figures

Certain 2003 figures have been reclassified to conform to the 2004 presentation.

Note 18 Approval of Financial Statements

The Deputy Minister, Corporate Chief Information Officer and the Chief Financial Officer for the Ministry of Innovation and Science approved the financial statements.

MINISTRY OF INNOVATION AND SCIENCE

Schedule 1

CONSOLIDATED EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT FOR THE YEAR ENDED MARCH 31, 2004

(In thousands)

	2004		2003
	Budget	Actual	Actual
OBJECT			
Salaries, Wages and Employee Benefits	$ 60,969	$ 56,229	$ 54,268
Supplies and Services	79,274	62,008	68,166
Grants	70,272	70,689	66,364
Financial Transactions and Other	98	477	1,457
Amortization of Tangible Capital Assets	8,072	7,867	8,564
Writedown of Tangible Capital Assets	-	699	-
Transfer to the Alberta Heritage Science and Engineering Research Endowment Fund	21,430	21,430	-
Total VOTED AND STATUTORY EXPENSES	$ 240,115	$ 219,399	$ 198,819

MINISTRY OF INNOVATION AND SCIENCE

CONSOLIDATED OPERATIONS BY ENTITY
AS AT MARCH 31, 2004

Schedule 2

(In thousands)

	2004					2003
	Estimates	Adjustment [a]	Voted Supplementary [b]	Authorized Budget	Actual	Actual
REVENUES						
Department	$ 139,354	$ -	$ -	$ 139,354	$ 137,867	$ 198,486
Alberta Science and Research Authority	157,940	-	-	157,940	137,003	127,870
Consolidation Adjustments	(103,167)	-	-	(103,167)	(101,863)	(90,266)
Total REVENUES	194,127	-	-	194,127	173,007	236,090
EXPENSES						
Program						
Voted						
Department	164,333	(1,580)	1,550	164,303	164,188	153,877
Statutory						
Department	21,430	-	-	21,430	21,430	69
Alberta Science and Research Authority	157,519	-	-	157,519	135,644	135,139
Consolidation Adjustments	(103,167)	-	-	(103,167)	(101,863)	(90,266)
Total Program Expenses	240,115	(1,580)	1,550	240,085	219,399	198,819
OTHER						
Loss on Disposal of Tangible Capital Assets	-	-	-	-	-	1,061
Total OTHER	-	-	-	-	-	1,061
NET OPERATING RESULTS	$ (45,988)	$ 1,580	$ (1,550)	$ (45,958)	$ (46,392)	$ 36,210
EQUIPMENT/INVENTORY PURCHASES						
Department	3,500	-	-	3,500	3,050	2,740
Alberta Science and Research Authority	3,414	-	-	3,414	3,189	2,157
Total EQUIPMENT/INVENTORY PURCHASES	$ 6,914	$ -	$ -	$ 6,914	$ 6,239	$ 4,897
CAPITAL INVESTMENT						
Department	58,700	-	-	58,700	27,729	85,357
Total CAPITAL INVESTMENT	$ 58,700	$ -	$ -	$ 58,700	$ 27,729	$ 85,357

(a) Adjustments include dedicated revenue shortfalls. In the event that actual voted Operating Expenses, Equipment and Inventory Purchases and Capital Investment in the prior year exceed that authorized, the difference is known as an encumbrance. The encumbrance reduces the budget amount voted in the current year.

(b) A Supplementary Estimates was approved on March 11, 2004. Treasury Board approval is pursuant to section 24(2) of the *Financial Administration Act* (for net budgeted initiatives).

MINISTRY OF INNOVATION AND SCIENCE

CONSOLIDATED RELATED PARTY TRANSACTIONS FOR THE YEAR ENDED MARCH 31, 2004

Schedule 3

Related parties are those entities consolidated or accounted for on a modified equity basis in the Province of Alberta's financial statements. Related parties also include management in the Department.

The Ministry and its employees paid or collected certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Ministry had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties:

(In thousands)

	Other Entities	
	2004	2003
REVENUES		
Lottery Fund	$ 127,497	$ 185,144
Information and Communications Technology	10,277	13,276
Grants	1,423	1,734
	$ 139,197	$ 200,154
EXPENSES - DIRECTLY INCURRED		
Supplies and Services	$ 2,470	$ 2,736
Grants	828	847
	$ 3,298	$ 3,583
TANGIBLE CAPITAL ASSETS TRANSFERRED TO/FROM ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 1,850	$ 1,837
RECEIVABLES DUE FROM ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 888	$ 1,949
PAYABLES DUE TO ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 103	$ 236

The Ministry also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service.

(In thousands)

	Other Entities	
	2004	2003
EXPENSES - INCURRED BY OTHERS		
Accommodations from the Ministry of Infrastructure	$ 17,179	$ 16,609
Legal services from the Ministry of Justice	96	152
	$ 17,275	$ 16,761

MINISTRY OF INNOVATION AND SCIENCE

CONSOLIDATED ALLOCATED COSTS
FOR THE YEAR ENDED MARCH 31, 2004

Schedule 4

(In thousands)

	2004				2003
		Expenses Incurred by Others			
	Expenses [1]	Accommodation Costs [2]	Legal Costs [3]	Total	Total
Program					
Alberta Science and Research Authority (ASRA)					
Alberta Agricultural Research Institute	$ 8,609	$ -	$ -	$ 8,609	$ 9,117
Alberta Energy Research Institute	12,056	-	-	12,056	6,855
Alberta Forestry Research Institute	2,598	-	-	2,598	1,775
Alberta Research Council Inc.	58,632	16,009	-	74,641	77,464
iCORE Inc.	9,737	39	-	9,776	10,089
Alberta Science and Research Investments Program	37,949	-	-	37,949	40,567
Technology Commercialization Initiatives	4,053	-	-	4,053	3,530
Operations and Policy Implementation	6,160	161	75	6,396	6,667
Corporate Information & Communications Technology	47,440	589	10	48,039	56,833
Alberta SuperNet	2,561	189	-	2,750	3,148
Ministry Support Services	7,475	192	11	7,678	4,321
	197,270	17,179	96	214,545	220,366
Statutory & Other					
Transfer to the Alberta Heritage Science and Engineering Research Endowment Fund	21,430	-	-	21,430	-
Writedown of Tangible Capital Assets	699	-	-	699	-
Total Expenses	$ 219,399	$ 17,179	$ 96	$ 236,674	$ 220,366

[1] Expenses - Directly Incurred as per Schedule 3, excluding valuation adjustments.
[2] Costs shown for Accommodation provided by the Ministry of Infrastructure.
[3] Costs shown for Legal Services provided by the Ministry of Justice.

DEPARTMENT OF INNOVATION AND SCIENCE

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2004

Statement of Operations

Statement of Financial Position

Statement of Cash Flow

Notes to the Financial Statements

Schedule of Revenues

Schedule of Dedicated Revenue Initiatives

Schedule of Expenses - Directly Incurred Detailed by Object

Schedule of Budget

Schedule of Comparison of Expenses - Directly Incurred, Voted Expenses, Equipment/Inventory, Capital Investments & Statutory Expenses by Element to Authorized Budget

Schedule of Salary and Benefits Disclosure

Schedule of Related Party Transactions

Schedule of Allocated Costs

AUDITOR GENERAL
Alberta

Auditor's Report

To the Minister of Innovation and Science

I have audited the statement of financial position of the Department of Innovation and Science as at March 31, 2004 and the statements of operations and cash flow for the year then ended. These financial statements are the responsibility of the Department's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Department as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J. Dunn FCA
Auditor General

Edmonton, Alberta
May 21, 2004

DEPARTMENT OF INNOVATION AND SCIENCE

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2004

(In thousands)

	2004 Budget (Schedule 4)	2004 Actual	2003 Actual
REVENUES (Note 2 and Schedules 1 and 2)			
Internal Government Transfers	$ 127,497	$ 127,497	$ 185,144
Other Revenue	11,857	10,370	13,342
Total REVENUES	139,354	137,867	198,486
EXPENSES- Directly Incurred (Note 2 and Schedules 3, 4 and 5)			
Voted Operating Expense			
Ministry Support Services	7,614	7,475	7,469
Corporate Information and Communications Technology	49,080	50,001	51,677
Research and Development	107,639	106,712	94,731
Total Voted Operating Expense	164,333	164,188	153,877
Statutory			
Transfer to the Alberta Heritage Science and Engineering Research Endowment Fund	21,430	21,430	-
Provision for Vacation Pay	-	-	69
Total Statutory Expenses	21,430	21,430	69
Total EXPENSES	185,763	185,618	153,946
OTHER			
Loss on Disposal of Tangible Capital Assets	-	-	26
Total OTHER	-	-	26
NET OPERATING RESULTS	$ (46,409)	$ (47,751)	$ 44,514

The accompanying notes and schedules are part of these financial statements.

DEPARTMENT OF INNOVATION AND SCIENCE

STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2004

(In thousands)

	2004	2003
ASSETS		
Cash	$ -	$ -
Accounts Receivable (Note 3)	592	2,297
Tangible Capital Assets (Note 4)	169,286	145,615
	$ 169,878	$ 147,912
LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 9,151	$ 53,997
Holdback Liability	3,617	2,294
	12,768	56,291
NET ASSETS		
Net Assets, Beginning of Year	91,621	55,358
Net Operating Results	(47,751)	44,514
Transfer from Government Services (Note 5)	4,786	-
Net Transfers (to) from General Revenues	108,454	(8,251)
Net Assets, End of Year	157,110	91,621
	$ 169,878	$ 147,912

The accompanying notes and schedules are part of these financial statements.

DEPARTMENT OF INNOVATION AND SCIENCE

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED MARCH 31, 2004

(In thousands)

	2004	2003
OPERATING TRANSACTIONS		
Net Operating Results	$ (47,751)	$ 44,514
Non-Cash Items Included in Net Operating Results:		
Amortization of Capital Assets	5,258	5,834
Loss on Disposal of Capital Assets	-	26
Provision for Vacation Pay	-	69
	(42,493)	50,443
Decrease/ (Increase) in Accounts Receivable	1,705	(7)
(Decrease)/ Increase in Accounts Payable and Accrued Liabilities	(44,846)	43,115
Increase in Holdback Liability	1,323	960
CASH PROVIDED (USED) BY OPERATING TRANSACTIONS	(84,311)	94,511
CAPITAL TRANSACTIONS		
Acquisitions of Tangible Capital Assets (Schedule 5)	(30,779)	(88,097)
Capital Assets Transferred to Other Ministries	2,341	1,877
Capital Assets Transferred from Other Ministries	(491)	(40)
CASH PROVIDED (APPLIED TO) BY CAPITAL TRANSACTIONS	(28,929)	(86,260)
FINANCING TRANSACTIONS		
Transfer from Government Services	4,786	-
Net Transfers (to) from General Revenues	108,454	(8,251)
CASH (USED) / PROVIDED BY FINANCING TRANSACTIONS	113,240	(8,251)
INCREASE (DECREASE) IN CASH	-	-
CASH, BEGINNING OF YEAR	-	-
CASH, END OF YEAR	$ -	$ -

The accompanying notes and schedules are part of these financial statements.

DEPARTMENT OF INNOVATION AND SCIENCE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

Note 1 Authority and Purpose

The Department of Innovation and Science operates under the authority of the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000.

The purpose of the Department of Innovation and Science (Department) is to:

- enhance the contribution of science, research, development and commercialization to the sustainable prosperity and quality of life of all Albertans; and
- provide strategic leadership and direction in the innovative and cost-effective use of Information Communications and Technology to improve the efficiency of government program delivery and administration.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate. These financial statements are prepared in accordance with the following accounting policies that have been established by government for all departments.

a) Reporting Entity

The reporting entity is the Department of Innovation and Science, which is part of the Ministry of Innovation and Science and for which the Minister of Innovation and Science is accountable. The other entity reporting to the Minister is the Alberta Science and Research Authority. The activity of the Alberta Science and Research Authority is not included in these financial statements. The Ministry Annual Report provides a more comprehensive accounting of the financial position and results of the Ministry's operations for which the Minister is accountable.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

a) Reporting Entity (cont'd)

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Fund is administered by the Minister of Finance. All cash receipts of departments are deposited into the Fund and all cash disbursements made by departments are paid from the Fund. Net transfers to/from General Revenues is the difference between all cash receipts and all cash disbursements made.

b) Basis of Financial Reporting

Revenues - All revenues are reported on the accrual method of accounting. Cash received for which goods or services have not been provided by year end is recorded as unearned revenue.

Internal Government Transfers - Internal government transfers are transfers between entities within the government reporting entity where the entity making the transfer does not receive any goods or services directly in return.

Dedicated Revenue - Dedicated revenue initiatives provide a basis for authorizing spending. Dedicated revenues are shown as credits or recoveries in the details of the Government Estimates for a supply vote. If actual dedicated revenues are less than budget and total voted expenses are not reduced by an amount sufficient to cover the deficiency in dedicated revenues, the following year's voted expenses are encumbered. If actual dedicated revenues exceed budget, the Department may, with the approval of the Treasury Board, use the excess revenue to fund additional expenses on the program. Schedule 2 discloses information on the Department's dedicated revenue initiative.

Expenses

Grants – Grants are recorded as expenditures when authorized and when all eligibility conditions have been satisfied.

Directly Incurred - Directly incurred expenses are those costs the Department has primary responsibility and accountability for, as reflected in the Government's budget documents.

Note 2 **Summary of Significant Accounting Policies and Reporting Practices (cont'd)**

b) Basis of Financial Reporting (cont'd)

Expenses (cont'd)
In addition to program expenses such as salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets.
- pension costs which comprise the cost of employer contributions for current service of employees during the year.
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay.

Incurred by Others - Services contributed by other entities in support of the Department's operations are disclosed in Schedule 8.

Assets - Financial assets of the Department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Assets acquired by right are not included. Tangible capital assets of the Department are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $100,000 and the threshold for all other tangible capital assets is $15,000.

Liabilities - Liabilities represent all financial claims payable by the Department at fiscal year end.

Net Assets - Net assets represent the difference between the value of assets held by the Department and its liabilities.

Valuation of Financial Assets and Liabilities - Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable, accounts payable and accrued liabilities, and holdback liability are estimated to approximate their book values because of the short-term nature of these instruments.

Note 3 Accounts Receivable

(In thousands)

	2004			2003
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
Commercial	$ 237	$ -	$ 237	$ 1,289
Accountable Advances	3	-	3	4
Alberta Government Departments and Agencies	352	-	352	1,004
	$ 592	$ -	$ 592	$ 2,297

Accounts receivable are unsecured and non-interest bearing.

Note 4 Tangible Capital Assets

(In thousands)

		2004			2003
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment - Supernet [1]	3 to 20 years	$ 152,079	$ -	$ 152,079	$ 124,350
Equipment - Other [2]	5 to 10 years	20,581	14,786	5,795	6,190
Computer Hardware and Software [3]	3 to 10 years	34,239	22,827	11,412	15,075
		$ 206,899	$ 37,613	$ 169,286	$ 145,615

(1) Capital costs are recorded as work-in-progress.

(2) Equipment also includes furniture and fixtures.

(3) Includes all development costs incurred by the Department in the implementation of the Alberta Government Integrated Management Information System (IMAGIS). The cost of each module is amortized over a 10-year useful life. Updates to newer versions of PeopleSoft, the IMAGIS software platform, are expensed in the year incurred.

Note 5 Government Restructuring

As a result of government restructuring effective April 1, 2003, the following changed in the responsibility of the Department:

- Alberta Records Centre, Network Operations, and Shared Network Services were transferred from the Department of Innovation and Science to Alberta Government Services.
- The responsibility for funding the National Institute of Nanotechnology was transferred from the Department of Health and Wellness to Alberta Innovation and Science.

Comparatives for 2003 have been restated as if the Department had always been assigned its current responsibilities.

Note 6 Commitments

(In thousands)

	2004	2003
SuperNet	$ 40,921	$ 68,650
Telecommunications Service Contracts [1]	105,968	135,477
General Service Contracts	452	6,703
	$ 147,341	$ 210,830

[1] The Government of Alberta's commitment to Bell West for telecommunication services is $94,086 (2003 - $117,602), over a ten year term.

Note 7 Defined Benefit Plans

(In thousands)

The Department participates in the multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Department also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $1,264 for the year ended March 31, 2004 (2003 - $1,180).

At December 31, 2003, the Management Employees Pension Plan reported a deficiency of $290,014 (2002 – $301,968) and the Public Service Pension Plan reported an actuarial deficiency of $596,213 (2002 - $175,528). At December 31, 2003, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $9,312 (2002 - $6,472).

Note 7 Defined Benefit Plans (cont'd)
(In thousands)

The Department also participates in two multi-employer Long-Term Disability Income Continuance Plans. At March 31, 2004, the Bargaining Unit Plan reported an actuarial deficiency of $9,766 (2003 – $14,434) and the Management, Opted Out and Excluded Plan an actuarial surplus of $1,298 (2003 – actuarial deficiency of $3,053). The expense for these two plans is limited to employer's annual contributions for the year.

Note 8 Comparative Figures

Certain 2003 figures have been reclassified to conform to the 2004 presentation.

Note 9 Approval of Financial Statements

The Deputy Minister, Corporate Chief Information Officer and the Chief Financial Officer approved the financial statements.

DEPARTMENT OF INNOVATION AND SCIENCE

REVENUES
FOR THE YEAR ENDED MARCH 31, 2004

Schedule 1

(In thousands)

	2004 Budget	2004 Actual	2003 Actual
Contribution from Lottery Fund	$ 127,497	$ 127,497	$ 185,144
Other Revenue	11,857	10,370	13,342
Total REVENUES	$ 139,354	$ 137,867	$ 198,486

DEDICATED REVENUE INITIATIVES
FOR THE YEAR ENDED MARCH 31, 2004

Schedule 2

(In thousands)

	2004 Authorized Dedicated Revenues	2004 Actual Dedicated Revenues	2004 (Shortfall) / Excess
Corporate Information and Communications Technology [1]	$ 11,857	$ 10,277	$ (1,580)

[1] The Department receives revenue from Ministries to recover the cost of providing cross-government services for finance and human resource applications.

EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT
FOR THE YEAR ENDED MARCH 31, 2004

Schedule 3

(In thousands)

	2004 Budget	2004 Actual	2003 Actual
VOTED:			
Salaries, Wages and Employee Benefits	$ 17,360	$ 16,096	$ 15,646
Supplies and Services	39,261	40,433	41,951
Grants	102,113	102,346	90,394
Financial Transactions and Other	53	55	52
Amortization of Tangible Capital Assets	5,546	5,258	5,834
Total VOTED EXPENSES	$ 164,333	$ 164,188	$ 153,877

DEPARTMENT OF INNOVATION AND SCIENCE

BUDGET
FOR THE YEAR ENDED MARCH 31, 2004

Schedule 4

(In thousands)

	2004				
	Estimates	Adjustment [a]	Budget	Authorized Supplementary [b]	Authorized Budget
REVENUES:					
Internal Government Transfers	$ 127,497	$ -	$ 127,497	$ -	$ 127,497
Other Revenue	11,857	-	11,857	-	11,857
Total REVENUES	139,354	-	139,354	-	139,354
EXPENSES - DIRECTLY INCURRED					
Voted Operating Expenses					
Ministry Support Services	7,614	-	7,614	-	7,614
Corporate Information and Communications Technology	49,080	-	49,080	1,550	50,630
Research and Development	107,639	-	107,639	-	107,639
Dedicated Revenue Shortfall	-	(1,580)	(1,580)	-	(1,580)
Total Voted Expenses	164,333	(1,580)	162,753	1,550	164,303
Statutory					
Transfer to the Alberta Heritage Science and Engineering Research Endowment Fund	21,430	-	21,430	-	21,430
Provision for Vacation Pay	-	-	-	-	-
Total Statutory Expenses	21,430	-	21,430	-	21,430
Total EXPENSES	185,763	(1,580)	184,183	1,550	185,733
OTHER					
Loss on Disposal of Tangible Capital Assets	-	-	-	-	-
Total OTHER	-	-	-	-	-
NET OPERATING RESULTS	$ (46,409)	$ 1,580	$ (44,829)	$ (1,550)	$ (46,379)
EQUIPMENT/ INVENTORY PURCHASES	$ 3,500	$ -	$ 3,500	$ -	$ 3,500
CAPITAL INVESTMENT	$ 58,700	$ -	$ 58,700	$ -	$ 58,700

(a) Adjustments include dedicated revenue shortfalls. In the event that actual voted Operating Expenses, Equipment and Inventory Purchases and Capital Investment in the prior year exceed that authorized, the difference is known as an encumbrance. The encumbrance reduces the budget amount voted in the current year.

(b) A Supplementary Estimate was approved on March 11, 2004. Treasury Board approval is pursuant to section 24(2) of the *Financial Administration Act* (for net budgeted initiatives).

DEPARTMENT OF INNOVATION AND SCIENCE

COMPARISON OF EXPENSES - DIRECTLY INCURRED, VOTED EXPENSES, EQUIPMENT/INVENTORY, CAPITAL INVESTMENTS & STATUTORY EXPENSES BY ELEMENT TO AUTHORIZED BUDGET FOR THE YEAR ENDED MARCH 31, 2004

Schedule 5

(In thousands)

		2004					
		Estimates	Adjustments	Authorized Supplementary	Authorized Budget [1]	Actual [2]	Unexpended / (Over Expended)
VOTED EXPENSES & STATUTORY EXPENSES							
Program 1	Ministry Support Services						
1.0.1	Minister's Office	$ 335	$ -	$ -	$ 335	$ 326	$ 9
1.0.2	Deputy Minister's Office	330	-	-	330	397	(67)
1.0.2	Corporate Chief Information Officer	-	-	-	-	181	(181)
1.0.3	Corporate Services	3,524	-	-	3,524	3,313	211
1.0.4	Communications	644	-	-	644	650	(6)
1.0.5	Strategic Management Information Services	2,781	-	-	2,781	2,608	173
	Program Total	7,614	-	-	7,614	7,475	139
Program 2	Corporate Information and Communications Technology						
2.1	Alberta Supernet						
2.1.1	Network Infrastructure and Management						
	- Operating Expense Funded by Lotteries	2,000	-	-	2,000	2,561	(561)
	Total Sub-program	2,000	-	-	2,000	2,561	(561)
2.2	Strategic Leadership and Services						
2.2.1	Office of the Chief Information Officer	10,021	-	-	10,021	9,070	951
2.2.2	Information and Communications Technology Services	24,955	-	-	24,955	25,891	(936)
2.2.3	Alberta Government Integrated Management Information Systems	12,104	-	1,550	13,654	12,479	1,175
	Total Sub-program	47,080	-	1,550	48,630	47,440	1,190
	Program Total	49,080	-	1,550	50,630	50,001	629
Program 3	Research and Development						
3.0.1	Operations and Policy Implementation	4,472	-	-	4,472	4,899	(427)
3.0.2	Grant to the Alberta Science and Research Authority						
	- Operating Expense	36,370	-	-	36,370	35,664	706
	- Operating Expense Funded by Lotteries	66,797	-	-	66,797	66,149	648
	Program Total	107,639	-	-	107,639	106,712	927
3.0.3	Transfer to the Alberta Heritage Science and Engineering Research Endowment Fund	21,430	-	-	21,430	21,430	-
	Program Total	21,430	-	-	21,430	21,430	-
	Dedicated Revenue Shortfall	-	(1,580)	-	(1,580)	-	(1,580)
Total VOTED EXPENSES & STATUTORY EXPENSES		$ 185,763	$ (1,580)	$ 1,550	$ 185,733	$ 185,618	$ 115

DEPARTMENT OF INNOVATION AND SCIENCE

COMPARISON OF EXPENSES - DIRECTLY INCURRED, VOTED EXPENSES, EQUIPMENT/INVENTORY, CAPITAL INVESTMENTS & STATUTORY EXPENSES BY ELEMENT TO AUTHORIZED BUDGET FOR THE YEAR ENDED MARCH 31, 2004

Schedule 5

(In thousands)

	2004					
	Estimates	Adjustments	Authorized Supplementary	Authorized Budget [a]	Actual [b]	Unexpended / (Over Expended)
VOTED EQUIPMENT / INVENTORY PURCHASES						
Program 1 Ministry Support Services						
1.0.5 Strategic Management Information Services	-	-	-	-	50	(50)
Program Total	-	-	-	-	50	(50)
Program 2 Corporate Information and Communications Technology						
2.1 Alberta Supernet						
2.2.1 Office of the Chief Information Officer	2,500	-	-	2,500	2,409	91
Total Sub-program	2,500	-	-	2,500	2,409	91
2.2 Strategic Leadership and Services						
2.2.2 Information and Communications Technology Services	1,000	-	-	1,000	591	409
Total Sub-program	1,000	-	-	1,000	591	409
Program Total	3,500	-	-	3,500	3,000	500
Total VOTED EQUIPMENT / INVENTORY PURCHASES	$ 3,500	$ -	$ -	$ 3,500	$ 3,050	$ 450
VOTED CAPITAL INVESTMENT						
Program 2 Corporate Information and Communications Technology						
2.1 Alberta Supernet						
2.1.1 Network Infrastructure and Management	58,700	-	-	58,700	27,729	30,971
Total VOTED CAPITAL INVESTMENT	$ 58,700	$ -	$ -	$ 58,700	$ 27,729	$ 30,971
Total VOTED EXPENSES, EQUIPMENT / INVENTORY, CAPITAL INVESTMENTS & STATUTORY EXPENSES	$ 247,963	$ (1,580)	$ 1,550	$ 247,933	$ 216,397	$ 31,536
Operating Expense	95,536	(1,580)	1,550	95,506	95,478	28
Operating Expense Funded by Lotteries	68,797	-	-	68,797	68,710	87
Program Equipment/Inventory Purchases	3,500	-	-	3,500	3,050	450
	167,833	(1,580)	1,550	167,803	167,238	565
Capital Investment Funded by Lotteries	58,700	-	-	58,700	27,729	30,971
	58,700	-	-	58,700	27,729	30,971
Statutory Expenses	21,430	-	-	21,430	21,430	-
	21,430	-	-	21,430	21,430	-
Total VOTED EXPENSES, EQUIPMENT / INVENTORY, CAPITAL INVESTMENTS & STATUTORY EXPENSES	$ 247,963	$ (1,580)	$ 1,550	$ 247,933	$ 216,397	$ 31,536

(a) Authorized Budget includes Adjustments and a Supplementary Estimate
- Adjustments include dedicated revenue shortfalls. In the event that actual voted Operating Expenses, Equipment and Inventory Purchases and Capital Investment in the prior year exceed that authorized, the difference is known as an encumbrance. The encumbrance reduces the budget amount voted in the current year.
- A Supplementary Estimate was approved on March 11, 2004. Treasury Board approval is pursuant to section 24(2) of the *Financial Administration Act* (for net budgeted initiatives).

(b) Achievement bonuses of $674 were incurred during the fiscal year. The bonuses are reported in each program area.

DEPARTMENT OF INNOVATION AND SCIENCE

SALARY AND BENEFITS DISCLOSURE
FOR THE YEAR ENDED MARCH 31, 2004

Schedule 6

	2004				2003
	Base Salary [1]	Other Cash Benefits [2]	Other Non-Cash Benefits [3]	Total	Total
Deputy Minister [4]	$ 156,229	$ 59,165	$ 35,336	$ 250,730	$ 240,161
Corporate Chief Information Officer [5]	78,844	15,769	18,595	113,208	-
Other Senior Official					
Chief Information Officer [6]	117,058	50,136	8,485	175,679	149,312
Current Executives:					
Research [7]	128,376	26,505	34,015	188,896	191,524
Policy Development and Coordination [8]	128,364	31,631	30,239	190,234	185,189
Chief Technology Officer [9]	124,620	22,116	29,945	176,681	170,853
Chief Financial Officer [10]	110,028	26,296	26,505	162,829	148,586
Project Standards [11]	110,028	16,113	26,435	152,576	-
Research and Technology Commercialization [12]	73,352	9,839	17,047	100,239	154,155
Innovation Implementation [13]	30,265	30,150	8,436	68,851	-

NOTES:

Prepared in accordance with Treasury Board Directive 03/2004

[1] Base Salary includes pensionable base pay.

[2] Other Cash Benefits include bonuses, vacation payments and lump sum payments.

[3] Other Non-Cash Benefits include the government's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, short and long term disability plans, WCB premiums, professional memberships and tuition fees.

[4] Automobile provided, no dollar amount included in benefits and allowances figures. Other cash benefits include vacation payout of $13,859 - current Deputy Minister (2003 - $14,141 - former Deputy Minister). This position was occupied by two individuals through the year.

[5] Automobile provided, no dollar amount included in benefits and allowances figures. The position of Corporate CIO was created effective October 7, 2003. The current incumbent previously occupied the position of Deputy Minister, Innovation and Science.

[6] Other Cash Benefits include vacation payout of $15,403 (2003 - nil) and pay in lieu of benefits.

[7] Other Cash Benefits include vacation payout of $9,505 (2003 - $14,257).

[8] Other Cash Benefits include vacation payout of $16,631 (2003 - $9,028).

[9] The position of Information Management and Technology Services was renamed Chief Technology Officer effective October 7, 2003. Other Cash Benefits include vacation payout of $5,716 (2003 - nil).

[10] Other Cash Benefits include vacation payout of $10,183 (2003 - $4,721).

[11] Effective April 1, 2003, this position became part of the Department's Management Committee.

[12] Effective November 24, 2003 this position is no longer part of the Department Executive Team (replaced by the newly created Innovation Implementation position). Other Cash Benefits include vacation payout of nil (2003 - $6,750).

[13] Position was created on November 24, 2003. Other Cash Benefits include vacation payout of $13,258 (2003 - nil).

DEPARTMENT OF INNOVATION AND SCIENCE

RELATED PARTY TRANSACTIONS
FOR THE YEAR ENDED MARCH 31, 2004

Schedule 7

Related parties are those entities consolidated or accounted for on a modified equity basis in the Province of Alberta's financial statements. Related parties also include management in the Department.

The Department and its employees paid or collected certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Department had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties:

(In thousands)

	Entities in the Ministry		Other Entities	
	2004	2003	2004	2003
REVENUES				
Lottery Fund	$ -	$ -	$ 127,497	$ 185,144
Information and Communications Technology	-	-	10,277	13,276
	$ -	$ -	$ 137,774	$ 198,420
EXPENSES - DIRECTLY INCURRED				
Grant to Alberta Research and Science Authority	$ 101,813	$ 90,197	$ -	$ -
Charges from Alberta Corporate Service Centre	-	-	2,200	2,406
Charges from Ministry of Finance	-	-	38	36
Charges from Department of Infrastructure	-	-	17	16
	$ 101,813	$ 90,197	$ 2,255	$ 2,458
TANGIBLE CAPITAL ASSETS TRANSFERRED TO/FROM ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ -	$ -	$ 1,850	$ 1,837
RECEIVABLES DUE FROM ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 54	$ 418	$ 298	$ 586
PAYABLES DUE TO ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 1,146	$ 103	$ -	$ 4

The Department also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements and are disclosed in Schedule 8.

(In thousands)

	Entities in the Ministry		Other Entities	
	2004	2003	2004	2003
EXPENSES - INCURRED BY OTHERS				
Accommodations from Alberta Infrastructure	$ -	$ -	$ 1,101	$ 998
Legal services from Alberta Justice	-	-	81	132
	$ -	$ -	$ 1,182	$ 1,130

DEPARTMENT OF INNOVATION AND SCIENCE

ALLOCATED COSTS
FOR THE YEAR ENDED MARCH 31, 2004

Schedule 8

(In thousands)

	2004				2003
		Expenses - Incurred by Others			
	Expenses [1]	Accommodation Costs [2]	Legal Services [3]	Total Expenses	Total Expenses
PROGRAM					
Ministry Support Services	$ 7,475	$ 192	$ 11	$ 7,678	$ 7,571
Information and Communications Technology	50,001	778	10	50,789	52,446
Science, Research and Development	106,712	131	60	106,903	95,059
	164,188	1,101	81	165,370	155,076
Statutory					
Transfer to the Alberta Heritage Science and Engineering Research Endowment Fund	21,430	-	-	21,430	-
Total Expenses	$ 185,618	$ 1,101	$ 81	$ 186,800	$ 155,076

[1] Expenses - Directly Incurred as per the Statement of Operations, excluding valuation adjustments.
[2] Costs shown are for Accommodation provided by Alberta Infrastructure.
[3] Costs shown are for Legal Services provided by Alberta Justice.

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2004

Auditor's Report

Consolidated Statement of Operations

Consolidated Statement of Financial Position

Consolidated Statement of Cash Flow

Notes to the Consolidated Financial Statements

Consolidated Schedule of Expenses - Directly Incurred Detailed By Object

Consolidated Schedule of Financial Position by Entity

Consolidated Schedule of Comparison of Revenues, Expenses - Directly Incurred, and Equipment and Inventory Purchases by Element to Authorized Budget

Consolidated Schedule of Salary, Honoraria And Benefits Disclosure

Consolidated Schedule of Related Party Transactions

Consolidated Schedule of Allocated Costs

AUDITOR GENERAL
Alberta

Auditor's Report

To the Board of Management of the Alberta Science and Research Authority

I have audited the consolidated statement of financial position of the Alberta Science and Research Authority as at March 31, 2004 and the consolidated statements of operations and cash flow for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Alberta Science and Research Authority as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J. Dunn FCA
Auditor General

Edmonton, Alberta
May 21, 2004

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2004

(In thousands)

	2004 Budget	2004 Actual	2003 Actual (Restated Note 16)
REVENUES (Note 2 and Schedule 3)			
Internal Government Transfers			
Transfer from Department - General Revenue Fund	$ 36,370	$ 35,664	$ 30,753
Transfer from Department - Lottery Fund	66,797	66,149	59,444
Sub-Total	103,167	101,813	90,197
Other Revenue			
Commercial Revenue	46,811	32,104	31,565
Contracts with Other Ministries	6,577	1,423	1,734
Technology and Production Sales	-	109	123
Investment Income	840	951	931
Various	545	603	2,919
Sub-Total	54,773	35,190	37,272
Total REVENUES	157,940	137,003	127,469
EXPENSES- Directly Incurred (Note 2 and Schedule 3)			
Program Expenses			
Energy (includes Climate Change Action Plan)			
Alberta Energy Research Institute	11,940	12,056	6,855
Life Sciences			
Alberta Agricultural Research Institute	8,875	8,609	9,117
Alberta Forestry Research Institute	2,060	2,598	1,775
Information and Communications Technology (ICT)			
iCORE Inc. (Informatics Circle of Research Excellence)	10,000	9,737	10,051
Technology Commercialization Initiatives	1,500	1,500	1,500
Investing in Research Capacity			
Science and Research Investments Program	39,222	37,949	40,567
Technology Business Development and Commercialization			
Technology Commercialization Initiatives	2,175	2,603	2,030
Alberta Research Council Inc. - Research Funded by ASRA	27,135	27,135	26,575
Alberta Research Council Inc. - Contract Research	53,467	31,497	33,874
Operations and Policy Implementation	1,145	1,261	1,194
Total Program Expenses	157,519	134,945	133,538
Other Expenses			
Provision for Vacation Pay	-	-	41
Writedown of Tangible Capital Assets (Note 8)	-	699	-
Total Other Expenses	-	699	41
Total EXPENSES	157,519	135,644	133,579
NET OPERATING RESULTS FROM CONTINUING OPERATIONS	421	1,359	(6,110)
OTHER			
Loss on Discontinued Operations (Note 3)	-	-	2,194
Total OTHER	-	-	2,194
NET OPERATING RESULTS	$ 421	$ 1,359	$ (8,304)

The accompanying notes and schedules are part of these financial statements.

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2004

(In thousands)

	2004 (Schedule 2)	2003
ASSETS		
Cash (Note 4)	$ 16,362	$ 25,839
Restricted Cash (Note 4)	1,361	1,295
Marketable Securities (Note 5)	775	762
Accounts Receivable (Note 6)	11,434	10,463
	29,932	38,359
Long-Term Investments (Note 7)	-	250
Tangible Capital Assets (Note 8)	16,664	16,803
	$ 46,596	$ 55,412
LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 13,584	$ 21,997
Unearned Revenue	3,837	3,502
Holdback Liability	795	2,542
Deferred Contributions (Note 9)	1,361	1,295
Current Portion of Long-Term Debt (Note 10)	423	401
	20,000	29,737
Long-Term Debt (Note 10)	721	1,145
Accumulated Provision for Project Abandonment (Note 11)	1,186	1,200
	21,907	32,082
NET ASSETS		
Net Assets, Beginning of Year	$ 23,330	$ 31,634
Net Operating Results	1,359	(8,304)
Net Assets, End of Year	24,689	23,330
	$ 46,596	$ 55,412

The accompanying notes and schedules are part of these financial statements.

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED MARCH 31, 2004

(In thousands)

	2004	2003
OPERATING TRANSACTIONS		
Net Operating Results from Continuing Operations	$ 1,359	$ (6,110)
Non-Cash Items included in Net Operating Results		
Amortization of Tangible Capital Assets	2,609	2,544
Valuation Adjustments	-	41
Purchase of Marketable Securities	(322)	(432)
Gain on Sale of Marketable Securities	(567)	-
Proceeds from Sale of Marketable Securities	876	-
Write Down of Long-Term Investments	250	-
Impairment of Tangible Capital Assets	699	-
	4,904	(3,957)
Decrease in Advances	-	3,900
(Increase) / Decrease in Accounts Receivable	(971)	4,367
(Decrease) / Increase in Accounts Payable and Accrued Liabilities	(8,413)	4,832
Increase in Unearned Revenue	335	486
(Decrease) / Increase in Holdback Liability	(1,747)	107
Increase in Deferred Contributions	66	99
Increase in Current Portion of Long-Term Debt	22	6
Decrease in Accumulated Provision for Project Abandonment	(14)	(267)
Cash Provided By Continuing Operations	(5,818)	9,573
Net loss for the year from Discontinued Operations	-	(1,159)
Amortization	-	186
Cash Used By Discontinued Operations (Note 3)	-	(973)
CASH PROVIDED BY OPERATING TRANSACTIONS	(5,818)	8,600
CAPITAL TRANSACTIONS		
Acquisition of Tangible Capital Assets (Schedule 3)	(3,189)	(2,157)
Proceeds from Disposal of Tangible Capital Assets	20	8
Proceeds from Sale of Discontinued Operations	-	56
CASH PROVIDED (APPLIED TO) BY CAPITAL TRANSACTIONS	(3,169)	(2,093)
INVESTING TRANSACTIONS		
Increase in Restricted Cash	(66)	(99)
Repayment of Long-Term Debt	(424)	(410)
CASH PROVIDED (APPLIED TO) BY INVESTING TRANSACTIONS	(490)	(509)
INCREASE (DECREASE) IN CASH	(9,477)	5,998
CASH, BEGINNING OF YEAR	25,839	19,841
CASH, END OF YEAR	$ 16,362	$ 25,839

The accompanying notes and schedules are part of these financial statements.

ALBERTA SCIENCE AND RESEARCH AUTHORITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

Note 1 Authority and Purpose

The Alberta Science and Research Authority is a provincial corporation established under the authority of the *Alberta Science and Research Authority Act*. This Act is the responsibility of the Ministry of Innovation and Science of the Province of Alberta.

The consolidated Alberta Science and Research Authority consists of the following organizations:

- Alberta Science and Research Authority
- Alberta Research Council Inc. including its wholly owned subsidiary C-FER Technologies (1999) Inc.
- iCORE Inc. (Alberta Informatics Circle of Research Excellence)

The purpose of the Alberta Science and Research Authority is to enhance the contribution of science, research and information technology to the sustainable prosperity and quality of life of all Albertans.

Note 2 Summaries of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with the following accounting policies that have been established by government for all Ministries. The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate.

a) Reporting Entity

The reporting entity is the Alberta Science and Research Authority which is part of the Ministry of Innovation and Science for which the Minister of Innovation and Science is accountable. The other entity reporting to the Minister is the Department of Innovation and Science. The activities of the Department of Innovation and Science are not included in these financial statements. The Ministry Annual Report provides a more comprehensive accounting of the financial position and results of the Ministry's operations for which the Minister is accountable.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

b) Basis of Consolidation

The activities of the entities within the Alberta Science and Research Authority are consolidated after adjusting them to a basis consistent with the accounting policies described below in (c). Intra-entity revenue, expense, asset and liability accounts, and investing and financing transactions have been eliminated. The financial statements of the individual entities provide more detailed information about the operations of each entity.

c) Basis of Financial Reporting

Revenues - All revenues are reported on the accrual method of accounting. Cash received for which goods or services have not been provided by year-end is recorded as unearned revenue.

Internal Government Transfers - Internal government transfers are transfers between entities within the government reporting entity where the entity making the transfer does not receive any goods or services directly in return.

Expenses
Grants – Grants are recorded as expenditures when authorized and when all eligibility conditions have been satisfied.

Directly Incurred - Directly incurred expenses are those costs the Alberta Science and Research Authority has primary responsibility and accountability for, as reflected in the Government's budget documents.

In addition to program expenses such as salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets.
- pension costs which comprise the cost of employer contributions for current service of employees during the year.
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay, guarantees and indemnities.

Incurred by Others - Services contributed by other entities in support of the Alberta Science and Research Authority's operations are disclosed in Schedule 6.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

c) Basis of Financial Reporting (cont'd)

Assets - Financial assets of the Alberta Science and Research Authority are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Assets acquired by right are not included. Tangible capital assets of the Alberta Science and Research Authority are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets.

Expenses incurred for patents owned as a result of research activity are not capitalized due to the uncertain value of benefits that may accrue.

Expenses incurred on the acquisition or development of other intangible assets including intellectual capital are not capitalized, as there currently is not an acceptable methodology for measuring the value of future benefits accruing.

Liabilities - Liabilities represent all financial claims payable by the Alberta Science and Research Authority at fiscal year-end.

Net Assets - Net assets represent the difference between the value of assets held by the Alberta Science and Research Authority and its liabilities.

Valuation of Financial Assets and Liabilities - Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable, accounts payable and accrued liabilities are estimated to approximate their book values because of the short-term nature of these instruments.

The fair value of long-term investments approximate cost due to the long-term nature of the investments.

The fair value of long-term debt approximates its carrying value due to the fact that the interest rates approximate the market rate at March 31, 2004.

Note 3 Discontinued Operations
(In thousands)

On November 4, 2002, Alberta Research Council Inc. discontinued and sold the assets of its ZiMARC business unit.

The loss on discontinued operations is as follows:

	2004	2003
Revenue	$ -	$ 401
Expense	-	1,560
Operating loss from discontinued operations	-	(1,159)
Loss on disposal of capital assets	-	(1,035)
	$ -	$ (2,194)

On the Consolidated Statement of Operations, actual results for discontinued operations are reported separately from continuing operations and are reported on a net basis. Prior year results have been reclassified to reflect this change.

Note 4 Cash and Restricted Cash
(In thousands)

Cash consists primarily of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is invested primarily in short-term and mid-term fixed income securities with a maximum term to maturity of three years. Due to the short-term nature of the CCITF investments, the carrying value approximates fair value. Interest is earned on the daily cash balance at the average rate of earnings of the CCITF, which varies depending on prevailing market interest rates.

Interest of $951 (2003 - $931) earned on the cash balance of the Alberta Science and Research Authority's remaining CCITF accounts has been credited to the account, and is reported in these financial statements.

The Alberta Science and Research Authority has a Restricted Cash balance of $1,361 (2003 - $1,295) related to specific research project and programs as disclosed in Note 9.

Note 5 Marketable Securities
(In thousands)

As at March 31, 2004, the Alberta Science and Research Authority had marketable securities of $775 (2003 - $762). Marketable securities include an investment in shares of a private company; the net realizable value of $1,090 (2003 - $984) approximates costs.

Note 6 **Accounts Receivable**
(In thousands)

	2004			2003
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
Commercial	$ 10,320	$ 646	$ 9,674	$ 9,529
Alberta Government Departments and Agencies	1,760	-	1,760	934
	$ 12,080	$ 646	$ 11,434	$ 10,463

Accounts receivable are unsecured and non-interest bearing.

Note 7 **Long-Term Investments**
(In thousands)

	2004	2003
Investment in shares of public companies	$ 1,385	$ 1,315
Investment in shares of private companies	-	250
	1,385	1,565
Provision for impairment in value	(1,385)	(1,315)
	$ -	$ 250

During the year, the Alberta Research Council Inc. provided $425 (2003 - $760) of services in exchange for shares and warrants (see Note 13) of a public company.

Note 8 Tangible Capital Assets

(In thousands)

	Estimated Useful Life	2004 Cost	2004 Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
Land	Indefinite	$ 566	$ -	$ 566	$ 566
Building	30 years	2,106	374	1,732	1,800
Equipment [1]	3-20 years	37,372	28,381	8,991	7,971
Computer Hardware / Software	3 years	2,951	2,803	148	129
Other	25 years	9,287	4,060	5,227	6,337
		$ 52,282	$ 35,618	$ 16,664	$ 16,803

(1) Equipment also includes furniture and fixtures.

Alberta Research Council Inc. owns equipment that is no longer capable of performing the functions for which it was purchased. As a result, Alberta Research Council Inc. has reduced the net book value of this unit by $699 to be equivalent to that of similar equipment performing the same functions. This was done using current quoted market prices.

Note 9 Deferred Contributions

(In thousands)

Deferred Contributions $1,361 (2003- $1,295) represents unspent contributions that are subject to externally imposed restrictions related to specific research projects or programs.

	2004	2003
Alberta Agricultural Research Institute Development Programs	$ 854	$ 751
Alberta Research Council Inc. Canadian International Development Agency Project	507	544
	$ 1,361	$ 1,295

Note 10 Long-Term Debt
(In thousands)

	2004	2003
5.45% mortgage, payable in monthly installments of $40 including interest, due October 1, 2004.	$ 1,144	$ 1,546
Less current portion	423	401
	$ 721	$ 1,145

A demand debenture has been pledged as collateral for the mortgage and term loan including:

- a fixed charge over land, building and equipment with a net book value of $3,172 (2003 – $3,247),
- a floating charge over other assets,
- an assignment of insurance proceeds, and
- a general security agreement registered under the *Personal Property Security Act* creating a floating charge over all property and assets, both present and future.

The following estimated principal repayments during the next three years and in total are based on the assumption that the mortgage will be renewed under similar terms and conditions:

Year	Repayments
2005	$ 423
2006	447
2007	274
	$ 1,144

Note 11 Accumulated Provision for Future Project Abandonment
(In thousands)

Under joint participation agreements, the Alberta Science and Research Authority will incur certain costs when wells and experimental projects are abandoned. Management's estimate of costs for future abandonment is $1,186 (2003 – $1,200).

Note 12 Commitments
(In thousands)

a) Grants

As at March 31, 2004, the Alberta Science and Research Authority had grant commitments of $75,728 (2003 – $96,975).

Year	Amount
2005	$ 44,748
2006	18,871
2007	6,944
2008	3,335
2009 Onwards	1,830
	$ 75,728

b) Leases

The Alberta Science and Research Authority leases certain equipment under operating leases that expire on various dates to 2008. The aggregate amount payable for the unexpired terms of these leases is as follows:

Year	Amount
2005	$ 95
2006	71
2007	30
2008	4
	$ 200

Note 13 Warrants and Options

As part of the consideration for granting various licenses, the Alberta Research Council Inc. has received a number of options and warrants to acquire common shares of public companies.

The Alberta Research Council Inc. is subject to market risk with these stock options and warrants. As a result, the value of these financial instruments will fluctuate as a result of changes in market prices.

Note 14 Contingencies
(In thousands)

At March 31, 2004, the Alberta Science and Research Authority is a defendant in two legal claims (2003 – two legal claims). All of these claims have specified amounts totalling $52,200 (2003 – $52,200). The resulting loss, if any, for these claims cannot be determined.

Note 15 Defined Benefit Plans
(In thousands)

The Alberta Science and Research Authority participates in the multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Alberta Science and Research Authority also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $2,013 for the year ending March 31, 2004 (2003 – $1,839).

At December 31, 2003, the Management Employees Pension Plan reported a deficiency of $290,014 (2002 – $301,968) and the Public Service Pension Plan reported an actuarial deficiency of $596,213 (2002 – $175,528). At December 31, 2003, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $9,312 (2002 – $6,472).

The Alberta Science and Research Authority also participates in two multi-employer Long-Term Disability Income Continuance Plans. At March 31, 2004, the Bargaining Unit Plan reported an actuarial deficiency of $9,766 (2003 – $14,434) and the Management, Opted Out and Excluded Plan an actuarial surplus of $1,298 (2003 – actuarial deficiency of $3,053). The expense for these two plans is limited to employer's annual contributions for the year.

Note 16 Comparative Figures
(In thousands)

Certain 2003 figures have been reclassified to conform to the 2004 presentation. In 2003-2004, a program was transferred from Alberta Health and Wellness to Alberta Science and Research Authority. As a result, comparatives have been restated as if the Alberta Science and Research Authority had always been assigned its current responsibilities.

	Revenues	Expenses	Other Expenses	Net Operating Result
As Previously Reported at March 31, 2003	$ 124,969	$ 131,079	$ 2,194	$ (8,304)
Transfers from Alberta Health and Wellness	2,500	2,500	-	-
Amounts Restated at March 31, 2003	**$ 127,469**	**$ 133,579**	**$ 2,194**	**$ (8,304)**

Note 17 Approval of Financial Statements

These financial statements were recommended by the Audit Committee and approved by the Alberta Science and Research Authority Board.

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT FOR THE YEAR ENDED MARCH 31, 2004

Schedule 1

(In thousands)

	2004		2003
	Budget	Actual	Actual
OBJECT			
Salaries, Wages and Employee Benefits	$ 43,608	$ 40,133	$ 38,176
Supplies and Services	40,014	21,625	25,356
Grants	71,326	70,156	66,167
Financial Transactions and Other	45	422	1,336
Amortization of Tangible Capital Assets	2,526	2,609	2,544
Writedown of Tangible Capital Assets	-	699	
Total EXPENSES	$ 157,519	$ 135,644	$ 133,579

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY ENTITY
AS AT MARCH 31, 2004

Schedule 2

(In thousands)

	Alberta Science and Research Authority	Alberta Research Council Inc.	iCORE Inc.	Consolidation Adjustments	Consolidated Alberta Science and Research Authority
ASSETS					
Cash (Note 4)	$ 7,679	$ 8,584	$ 99	$ -	$ 16,362
Restricted Cash (Note 4)	854	507	-	-	1,361
Prepaids	-	297	-	(297)	-
Marketable Securities (Note 5)	-	775	-	-	775
Accounts Receivable (Note 6)	1,179	11,125	-	(870)	11,434
	9,712	21,288	99	(1,167)	29,932
Long-Term Investments (Note 7)	-	-	-	-	-
Tangible Capital Assets (Note 8)	-	16,664	-	-	16,664
	$ 9,712	$ 37,952	$ 99	$ (1,167)	$ 46,596
LIABILITIES					
Accounts Payable and Accrued Liabilities	$ 4,086	$ 10,265	$ 103	$ (870)	$ 13,584
Unearned Revenue	10	4,375	-	(548)	3,837
Holdback Liability	795	-	-	-	795
Deferred Contributions (Note 9)	854	507	-	-	1,361
Current Portion of Long-Term Debt (Note 10)	-	423	-	-	423
	5,745	15,570	103	(1,418)	20,000
Long-Term Debt (Note 10)	-	721	-	-	721
Accumulated Provision for Project Abandonment (Note 11)	1,186	-	-	-	1,186
	6,931	16,291	103	(1,418)	21,907
NET ASSETS					
Net Assets, Beginning of Year	$ 3,394	$ 20,213	$ 3	$ (280)	$ 23,330
Net Operating Results	(613)	1,448	(7)	531	1,359
Net Assets, End of Year	2,781	21,661	(4)	251	24,689
	$ 9,712	$ 37,952	$ 99	$ (1,167)	$ 46,596

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED COMPARISON OF REVENUES, EXPENSES - DIRECTLY INCURRED, AND EQUIPMENT AND INVENTORY PURCHASES BY ELEMENT TO AUTHORIZED BUDGET FOR THE YEAR ENDED MARCH 31, 2004

Schedule 3

(In thousands)

	2004		
	Authorized Budget	Actual Expense	Increase / (Decrease)
REVENUES			
Internal Government Transfers			
Transfer from Department - General Revenue Fund	$ 36,370	$ 35,664	$ (706)
Transfer from Department - Lottery Fund	66,797	66,149	(648)
Sub-Total	103,167	101,813	(1,354)
Other Revenue			
Commercial Revenue	46,811	32,104	(14,707)
Contracts with Other Ministries	6,577	1,423	(5,154)
Technology and Production Sales	-	109	109
Investment Income	840	951	111
Various	545	603	58
Sub-Total	54,773	35,190	(19,583)
Total REVENUES	157,940	137,003	(20,937)
EXPENSES			
Program Expenses			
Energy (includes Climate Change Action Plan)			
Alberta Energy Research Institute			
- Operating Expenses	5,000	5,000	-
- Operating Expenses funded by Lotteries	6,940	7,056	116
Life Sciences			
Alberta Agricultural Research Institute			
- Operating Expenses	-	-	-
- Operating Expenses funded by Lotteries	8,875	8,609	(266)
Alberta Forestry Research Institute			
- Operating Expenses	300	300	-
- Operating Expenses funded by Lotteries	1,760	2,298	538
Information and Communications Technology (ICT)			
iCORE Inc. (Informatics Circle of Research Excellence)			
- Operating Expenses	-	-	-
- Operating Expenses funded by Lotteries	10,000	9,737	(263)
Technology Commercialization Initiatives	1,500	1,500	-
Investing in Research Capacity			
Science and Research Investments Program			
- Operating Expenses	-	-	-
- Operating Expenses funded by Lotteries	39,222	37,949	(1,273)
Technology Business Development and Commercialization			
Technology Commercialization Initiatives			
- Operating Expenses	2,175	2,103	(72)
- Operating Expenses funded by Lotteries	-	500	500
Alberta Research Council Inc. - Research Funded by ASRA	27,135	27,135	-
Alberta Research Council Inc. - Contract Research	53,467	31,497	(21,970)
Operations and Policy Implementation	1,145	1,261	116
Total Program Expenses	157,519	134,945	(22,574)
Other Expenses			
Writedown of Tangible Capital Assets	-	699	699
	-	699	699
Total EXPENSES	157,519	135,644	(21,875)
NET OPERATING RESULTS	$ 421	$ 1,359	$ 938
EQUIPMENT/INVENTORY PURCHASES	$ 3,414	$ 3,189	$ (225)

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS
SALARY, HONORARIA AND BENEFITS DISCLOSURE
FOR THE YEAR ENDED MARCH 31, 2004

Schedule 4

	2004				2003
	Salary [1]	Honoraria [2]	Benefits & Allowances	Total	Total
Chair of Alberta Science and Research Authority	$ -	$ 48,295	$ -	$ 48,295	$ 32,620
Co-Chairs of Alberta Agricultural Research Institute	-	48,111	-	48,111	52,615
Co-Chairs of Alberta Energy Research Institute	-	28,331	-	28,331	25,609
Board Members [3]	15,000	65,342	255	80,597	71,813

NOTES:

(1) A Member to the Legislative Assembly (M.L.A) receives a monthly salary as Vice-Chair of the Alberta Science and Research Authority.

(2) The Chair of the Alberta Science and Research Authority, the Co-Chairs of the Alberta Agricultural Research Institute, the Co-Chairs of the Alberta Energy Research Institute, the Co-Chairs of Alberta Forestry Research Institute and all other Board Members who are not employees of the Government and not M.L.A's may be paid remuneration in the form of honoraria.

(3) Included are Board Members of the Alberta Science and Research Authority, and Board Members of the Alberta Science and Research Authority's unincorporated boards: the Alberta Agricultural Research Institute, the Alberta Energy Research Institute, and the Alberta Forestry Research Institute.

(4) The salary, honoraria and benefits disclosure for the Alberta Research Council Inc. and iCORE Inc. are reported separately in their respective financial statements.

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED RELATED PARTY TRANSACTIONS FOR THE YEAR ENDED MARCH 31, 2004

Schedule 5

Related parties are those entities consolidated in the Province of Alberta's financial statements. Related parties also include management in the Alberta Science and Research Authority.

The Alberta Science and Research Authority and its employees paid certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Alberta Science and Research Authority had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties:

(In thousands)

	Entities in the Ministry		Other Entities	
	2004	2003	2004	2003
REVENUES				
Grant from the Department of Innovation and Science	$ 101,813	$ 90,197	$ -	$ -
Grants/Contracts with Other Alberta Government Departments and Agencies	-	-	1,423	1,734
	$ 101,813	$ 90,197	$ 1,423	$ 1,734
EXPENSES - DIRECTLY INCURRED				
Grants to Alberta Government Departments and Agencies	$ -	$ -	$ 828	$ 847
Charges from the Ministry of Finance	-	-	109	150
Charges from the Ministry of Infrastructure	-	-	75	99
Charges from the Alberta Corporate Services Centre	-	-	31	29
	$ -	$ -	$ 1,043	$ 1,125
RECEIVABLES FROM ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 1,170	$ 103	$ 590	$ 1,363
PAYABLES TO ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 173	$ 695	$ 103	$ 232

The Alberta Science and Research Authority also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements.

(In thousands)

	Entities in the Ministry		Other Entities	
	2004	2003	2004	2003
EXPENSES - INCURRED BY OTHERS				
Administrative support supplied by the Department of Innovation and Science	$ 3,154	$ 2,829	$ -	$ -
Accommodation from the Ministry of Infrastructure	-	-	16,078	15,611
Legal services from the Ministry of Justice	-	-	15	20
	$ 3,154	$ 2,829	$ 16,093	$ 15,631

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED ALLOCATED COSTS
FOR THE YEAR ENDED MARCH 31, 2004

Schedule 6

(In thousands)

	2004					2003
		Expenses Incurred by Others				
	Expenses [1]	Accommodation Costs [2]	Legal Costs [3]	Administrative Costs [4]	Total	Total
Program						
Operations and Policy Implementation	$ 1,261	$ 30	$ 15	$ 4	$ 1,310	$ 1,366
Science and Research Investments Program	37,949	-	-	522	38,471	41,118
Technology Commercialization Initiatives	4,103	-	-	1,156	5,259	4,297
iCORE Inc.	9,737	39	-	-	9,776	10,089
Alberta Research Council Inc.	58,632	16,009	-	-	74,641	75,973
Alberta Forestry Research Institute	2,598	-	-	121	2,719	1,912
Alberta Agricultural Research Institute	8,609	-	-	503	9,112	9,713
Alberta Energy Research Institute	12,056	-	-	848	12,904	7,571
Other Expenses						
Writedown of Tangible Capital Assets	699	-	-	-	699	-
	$ 135,644	$ 16,078	$ 15	$ 3,154	$ 154,891	$ 152,039

[1] Expenses - Directly Incurred as per the Consolidated Statement of Operations, excluding valuation adjustments.
[2] Costs shown for Accommodation provided by the Ministry of Infrastructure.
[3] Costs shown for Legal Services provided by the Ministry of Justice.
[4] Costs shown for Administrative Support provided by the Department of Innovation and Science.

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2004

Auditor's Report

Consolidated Balance Sheet

Consolidated Statement of Revenue and Expense and Operating Equity

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

Consolidated Schedule of Allocated Costs

AUDITOR GENERAL *Alberta*

Auditor's Report

To the Board of Directors of the Alberta Research Council Inc.

I have audited the consolidated balance sheet of the Alberta Research Council Inc. as at March 31, 2004 and the consolidated statements of revenue and expense and operating equity and cash flows for the year then ended. These financial statements are the responsibility of ARC's management. My responsibility is to express an opinion on these financial statements based on our audit.

I conducted this audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of ARC as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
April 30, 2004

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED BALANCE SHEET
AS AT MARCH 31, 2004

(In thousands)

	2004	2003
ASSETS		
Current:		
Cash (Note 4)	$ 9,091	$ 6,385
Marketable securities – quoted market value $1,090 (2003 – $984)	775	762
Accounts receivable (Note 5)	8,733	7,251
Accrued income receivable	2,392	3,633
Inventory	130	131
Prepaid expenses	167	149
	21,288	18,311
Long-term:		
Long-term investments (Note 6)	-	250
Property, plant and equipment (Note 7)	16,663	16,802
	$ 37,951	$ 35,363
LIABILITIES AND EQUITY		
Current:		
Accounts payable and accrued liabilities (Note 8)	$ 10,265	$ 9,569
Unearned contract revenue (Note 8)	4,882	4,036
Current portion of long-term debt (Note 9)	423	401
	15,570	14,006
Long-term:		
Long term debt (Note 9)	721	1,145
	16,291	15,151
Equity:		
Operating	21,660	20,212
	$ 37,951	$ 35,363

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

LeRoy Johnson, M.L.A
Wetaskiwin - Camrose
Chair of the Board of Directors

Jim Carter
Chair, ARC Audit Committee

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED STATEMENT OF REVENUE AND EXPENSE AND OPERATING EQUITY FOR THE YEAR ENDED MARCH 31, 2004

(In thousands)

	2004 Budget (Note 17)	2004 Actual (Schedule 1)	2003 Actual
REVENUE			
Investment from the Province of Alberta:			
General revenues	$ 27,135	$ 27,135	$ 26,575
Contract revenue (Note 14):			
Commercial	35,702	27,527	31,030
Alberta government departments and agencies	5,170	4,378	5,938
Royalties, licensing fees and product sales	4,460	4,413	1,168
Interest income	500	591	475
	72,967	64,044	65,186
EXPENSE			
Salaries, wages and benefits (Note 8)	42,413	39,142	38,670
Professional, technical and labour services	8,212	6,516	7,240
Materials and supplies	7,050	4,449	5,722
Amortization	2,682	2,609	2,544
Other expenses (Note 8)	3,063	2,034	2,744
Travel and hospitality	2,392	1,802	1,802
Computing supplies and services	1,884	1,741	1,877
Legal and patent	1,491	1,254	1,386
Impairment of property, plant and equipment (Note 7)	-	699	-
Royalty expense (Note 8)	-	548	-
Maintenance and rental	1,187	517	581
Telephone	494	458	438
Insurance (Note 8)	466	436	411
Write-down of long-term investments	-	250	-
Interest	72	71	109
Provision for impairment – long-term investments	-	70	364
	71,406	62,596	63,888
NET EARNINGS FOR THE YEAR FROM CONTINUING OPERATIONS	1,561	1,448	1,298
NET LOSS FROM DISCONTINUED OPERATIONS (Note 3)	-	-	(2,290)
NET EARNINGS (LOSS) FOR THE YEAR	1,561	1,448	(992)
OPERATING EQUITY AT BEGINNING OF YEAR	20,212	20,212	21,204
OPERATING EQUITY AT END OF YEAR	$ 21,773	$ 21,660	$ 20,212

The accompanying notes are an integral part of these financial statements.

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2004

(In thousands)

CASH PROVIDED BY (USED IN)	2004	2003
OPERATING ACTIVITIES:		
Net earnings for the year from continuing operations	$ 1,448	$ 1,298
Amortization	2,609	2,544
Impairment of property, plant and equipment (Note 7)	699	-
Royalty expense (Note 8)	548	-
Gain on sale of marketable securities	(567)	-
Purchase of marketable securities	(322)	(432)
Proceeds on sale of marketable securities	876	-
Write down of long-term investments	250	-
Net change in non-cash balances (Note 12)	736	2,914
Net cash provided by operating activities of continuing operations	6,277	6,324
Net loss for the year from discontinued operations (Note 3)	-	(1,159)
Amortization (Note 3)	-	186
Net change in inventory (Note 3)	-	(190)
Net change in non-cash balances	(50)	50
Net cash used by operating activities of discontinued operations	(50)	(1,113)
Net cash provided by operating activities	6,227	5,211
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(3,189)	(2,156)
Proceeds on disposal of property, plant and equipment	20	8
Proceeds on sale of discontinued operations (Note 3)	50	100
Net cash used by investing activities	(3,119)	(2,048)
FINANCING ACTIVITIES:		
Repayment of long-term debt	(402)	(404)
INCREASE IN CASH	2,706	2,759
CASH AT BEGINNING OF YEAR	6,385	3,626
CASH AT END OF YEAR	$ 9,091	$ 6,385
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	$ 71	$ 109
Interest received	$ 591	$ 475

The accompanying notes are an integral part of these financial statements.

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

Note 1 Authority and Purpose

The Alberta Research Council Inc. is incorporated under the *Alberta Business Corporations Act* (Alberta). The Alberta Research Council Inc. ("Research Council") is a wholly owned subsidiary of the Alberta Science and Research Authority ("Authority"), which is the responsibility of the Ministry of Innovation and Science of the Province of Alberta.

The Authority and its wholly owned subsidiaries are exempt from the payment of income tax under Section 149 of the *Income Tax Act*.

In partnership with global leaders, the Research Council helps to advance the economy and well being of Alberta and Canada by providing technology and innovation to meet current and emerging needs of industry and government.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The precise determination of many assets and liabilities is dependent upon future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. These consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

(a) Basis of Consolidation

These consolidated financial statements include the accounts of the Research Council and its wholly owned subsidiary, C-FER Technologies (1999) Inc.

(b) Marketable Securities

Shares of public companies, which are highly liquid, are recorded at the lower of cost and market value.

(c) Inventory

Inventory consists primarily of raw materials for use in production and fulfillment of supply contracts and is valued at the lower of average cost and net realizable value.

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

(d) Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are amortized on a straight-line basis over their estimated useful lives using the following annual rates:

Building	Thirty years
Leasehold improvements	Twenty-five years
Equipment	Three to twenty years
Furniture and fixtures	Five years
Computer equipment and software	Three years

(e) Long-term Investments

Long-term investments are accounted for on the cost basis. Declines in the value of the investments below cost are recognized when such declines are considered to be other than temporary.

(f) Patents and Other Intangible Assets

Expenses incurred related to patents owned by the Research Council as a result of research activity are not capitalized due to the uncertain value of benefits which may accrue to the Research Council.

Expenses incurred on the acquisition or development of other intangible assets including intellectual capital are not capitalized as there currently is not an acceptable methodology for measuring the value of future benefits accruing to the Research Council.

(g) Revenue Recognition

Provincial investment funds, general revenues, are recognized as revenue in the year approved.

Contract revenue is recognized as costs are incurred, up to the contract maximum and in accordance with contracted cost-sharing ratios. The Research Council makes full provision for all known or estimated losses on uncompleted contracts as soon as they can reasonably be estimated.

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

(g) Revenue Recognition (cont'd)

Royalties and licensing fees are recognized as they accrue in accordance with the relevant agreements and when the amount can be reasonably estimated and there is reasonable assurance of collectability of proceeds.

Revenue from product sales is recognized when products are delivered.

(h) Expenses Incurred by Others

Services contributed by other entities in support of the Research Council's operations have not been recorded in the financial statements and are disclosed in Schedule 1.

(i) Pension Plans

The Research Council participates in multi-employer pension plans with related government entities. Pension costs included in these financial statements are comprised of the cost of employer contributions for the current service of employees during the year and additional employer contributions for service relating to prior years.

Note 3 Discontinued Operations

On November 4, 2002, Alberta Research Council Inc. disposed of its ZiMARC business unit for proceeds of $150,000. The results of ZiMARC have been presented as discontinued operations in the financial statements.

	(In thousands) 2003
Net loss from ZiMARC operations	$ 1,159
Loss on sale of property, equipment and inventory	1,131
	$ 2,290

Included in the net loss from ZiMARC operations in 2003 is $186,000 of amortization expense and $190,000 from disposal of inventory.

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

Note 4 Cash

Cash consists primarily of deposits in the Consolidated Cash Investment Trust Fund ("CCITF") of the Province of Alberta. The CCITF is managed by Alberta Treasury with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. Interest is earned on the daily cash balance at the average rate of earnings of the CCITF, which varies depending on prevailing market interest rates. The average rate of interest earned on cash balances in the year was 3.06%. Cash of $507,000 (2003 – $544,000) is held in trust for use in a Canadian International Development Agency ("CIDA") project.

Note 5 Accounts Receivable

(In thousands)

	2004	2003
Commercial	$ 7,322	$ 5,823
Alberta government departments and agencies	1,411	1,428
	$ 8,733	$ 7,251

Accounts receivable are recorded net of $646,000 (2003 – $783,000) of allowance for doubtful accounts.

Note 6 Long-term Investments

(In thousands)

	2004	2003
Investment in shares of public companies	$ 1,385	$ 1,315
Investments in shares of private companies	-	250
	1,385	1,565
Provision for impairment in value	(1,385)	(1,315)
	$ -	$ 250

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

Note 7 Property, Plant and Equipment

(In thousands)

	2004			2003
	Cost	Accumulated amortization	Net	Net
Land	$ 566	$ -	$ 566	$ 566
Building	2,106	374	1,732	1,800
Leasehold improvements	9,286	4,060	5,226	6,336
Equipment	36,981	27,993	8,988	7,958
Furniture and fixtures	391	388	3	13
Computer equipment and software	2,951	2,803	148	129
	$ 52,281	$ 35,618	$ 16,663	$ 16,802

Impairment of Property, Plant and Equipment

The Research Council currently owns a P-18 powerfuge unit that was purchased in the fiscal year 2000 for use in the processing of sterile products related to activities within the Life Sciences area. After product failures, the Research Council worked with the manufacturer to solve the sterility problems associated with the powerfuge unit. Upon further testing, it has been determined that this equipment is no longer capable of performing the functions for which it was purchased. As a result, the Research Council has reduced the net book value of this unit by $699,000 to be equivalent to that of similar equipment performing the same functions. This was done using current quoted market prices.

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

Note 8 Related Party Transactions

The following table summarizes the Research Council's related party transactions for the year:

(In thousands)

Related Party	Relationship	Transaction	Classification	2004	2003
Alberta Infrastructure	Ministry	Parking services	Salary, wages and benefits	$ 74	$ 82
Ministry of Finance	Government department	Insurance	Insurance	109	150
Alberta Corporate Services Centre	Government department	Postage services	Other expenses	24	29

The premises occupied by the Research Council, as well as some office furniture and tenant improvements, have been provided by the Province of Alberta at no cost (see Schedule 1).

Included in accounts payable is $172,000 (2003 – $657,000) due to Alberta Innovation and Science, the Ministry.

Included in unearned contract revenue is $1,110,000 (2003 – $269,000) received on behalf of Alberta government departments and agencies. $548,000 of this amount was recorded as royalty expense to Alberta Science and Research Authority in the statement of revenue and expense and operating equity.

Note 9 Long-term Debt

(In thousands)

	2004	2003
5.45% mortgage, payable in monthly installments of $39,439 including interest, due October 1, 2004	$ 1,144	$ 1,546
Less: Current portion	423	401
	$ 721	$ 1,145

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

Note 9 Long-term Debt (Cont'd)

A demand debenture with a fixed charge over land, building and equipment with a net book value of $3,172,000 (2003 – $3,247,000), a floating charge over other assets, an assignment of insurance proceeds and a general security agreement registered under the *Personal Property Security Act* creating a floating charge over all property and assets, both present and future have been pledged as collateral for the mortgage.

The following estimated principal repayments during the next three years and in total are based on the assumption that the mortgage will be renewed under similar terms and conditions:

	(In thousands)
Year ending March 31,	
2005	$ 423
2006	447
2007	274
	$ 1,144

Note 10 Contingency

During fiscal 2000, the Research Council was made aware of a $2,200,000 claim relating to intellectual property ownership, which was filed by a former employee. Management feels that the claim is without merit, however, the likelihood of loss is not determinable at this time. Any settlement that may occur would be accounted for as a charge against earnings in the year of settlement.

Note 11 Commitments

a) Future minimum lease payments for office equipment and vehicles over the next four years and in total are as follows:

	(In thousands)
Year ending March 31,	
2005	$ 95
2006	71
2007	30
2008	4
	$ 200

b) The Research Council has committed to contribute $1,212,000 to a project over the next two fiscal years.

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

Note 12 Net Change in Non-Cash Balances

(In thousands)

	2004	2003
Accounts receivable	$ (1,482)	$ 3,952
Accrued income receivable	1,241	(126)
Inventory	1	368
Prepaid expenses	(18)	(9)
Accounts payable and accrued liabilities	696	(1,991)
Royalty expense	(548)	-
Unearned contract revenue	846	720
	$ 736	$ 2,914

Note 13 Pension Plan

The Research Council participates in two multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan, as well as a Defined Contribution Plan. The expense for these pension plans is equivalent to the annual contributions of $1,952,000 for the year ending March 31, 2004 (2003 – $1,789,000).

Note 14 Contract Revenue

During the year, the Research Council provided $425,000 (2003 – $760,000) of services in exchange for shares and warrants of public companies.

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

Note 15 Board of Directors and Senior Executive Salaries and Benefits

	2004			2003
	Salary [1]	Benefits and Allowances[2]	Total	Total
Chair of the Board[3]	$ -	$ -	$ -	$ -
Board Members	8,134	-	8,134	5,500
Chief Executive Officer	190,010	61,831	251,841	214,620
Chief Financial Officer	117,804	25,488	143,292	131,535
Vice-President, Energy Technologies	162,084	29,201	191,285	185,789
Vice-President, Integrated Resource Management[4]	177,255	14,598	191,853	161,894
Vice-President, Life Sciences	124,800	19,011	143,811	139,820
Vice-President, Advanced Materials, Sensors and Intelligent Systems	107,892	18,884	126,776	119,516
Vice-President, External Relations & Alliances	106,704	16,812	123,516	118,479
Vice-President, New Ventures[5]	160,664	29,993	190,657	28,004

(1) Salary includes regular pay, bonuses and lump sum payments.

(2) Benefits and allowances includes the employer's share of the cost of pension, Canada Pension Plan, Employment Insurance, dental, major medical, basic life insurance, short and long-term disability, employee health care expense accounts and vacation accrual. It also includes car allowance, payments made in lieu of benefits and membership fees.

(3) No salary was paid by the Research Council to the Chair of the Board.

(4) A new Vice-President, Integrated Resource Management started August 1, 2002.

(5) Vice President, New Ventures started December 16, 2002.

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

Note 16 Financial Instruments

Financial instruments consist of accounts receivable, accrued income receivable, marketable securities and long-term investments which will result in future cash receipts as well as accounts payable and accrued liabilities and long-term debt which will result in future cash outlays.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties, matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair values of accounts receivable, accrued income receivable, accounts payable and accrued liabilities approximate the carrying values due to their short-terms to maturity. The fair value of the marketable securities is their market value as disclosed on the balance sheet.

The fair value of long-term investments approximate cost due to the long-term nature of the investments.

The fair value of long-term debt approximates its carrying value due to the fact that the interest rates approximate the market rate at March 31, 2004.

The Research Council is exposed to normal credit risk with respect to its commercial sales. However, this is minimized by the Research Council's program of credit evaluation of new customers. Provisions are maintained for potential credit losses, and any such losses to date have been within management's expectations. The Research Council is not exposed to significant credit risk from any one customer.

Options and Warrants

As part of the consideration for granting various licenses, the Research Council will sometimes receive options and warrants to acquire common shares of public companies. The Research Council is subject to market risk with these stock options and warrants. As a result, the value of these financial instruments will fluctuate as a result of changes in market prices.

Note 17 Budget

The 2004 budget was approved by the Board of Directors on March 20, 2003.

Note 18 Comparative Figures

The comparative figures have been reclassified where necessary to conform with current year's presentation.

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED SCHEDULE TO ALLOCATED COSTS [1]
FOR THE YEAR ENDED MARCH 31, 2004

Schedule 1

(In thousands)

	2004			2003
	Expenses [2]	Expenses Incurred by Others Accommodation Costs [3]	Total Expenses	Total Expenses
Total Expense	$ 62,596	$ 16,128	$ 78,724	$ 79,412

(1) If these allocated costs were paid for by the Research Council, the Province's contribution to the Research Council would be increased by $16,128,000 making total revenue for 2004 $80,172,000. Net earnings for 2004 would have remained at $1,448,000.

(2) Expenses as per Consolidated Statement of Revenue and Expense and Operating Equity.

(3) Accommodation costs, including premises occupied by the Research Council, as well as some office furniture and tenant improvements, have been provided by the Province of Alberta at no cost. The Province's costs to provide this support are as follows:

(In thousands)

	2004	2003
Accommodation cost:		
Building maintenance	$ 9,011	$ 7,302
Grants in lieu of taxes	1,788	1,641
Lease costs	2,018	2,164
Project expenses	398	2,018
Amortization	2,913	2,399
	$ 16,128	$ 15,524

iCORE Inc.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2004

Statement of Operations

Statement of Financial Position

Statement of Cash Flow

Notes to the Financial Statements

Schedule of Salary and Benefits Disclosure

Schedule of Related Party Transactions

AUDITOR GENERAL
Alberta

Auditor's Report

To the Board of Directors of iCORE Inc.

I have audited the statement of financial position of iCORE Inc. as at March 31, 2004 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the iCORE Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the iCORE Inc. as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J. Dunn FCA
Auditor General

Edmonton, Alberta
May 3, 2004

iCORE Inc.

STATEMENT OF OPERATIONS
For the Year Ended March 31, 2004

(In thousands)

	2004 Budget	2004 Actual	2003 Actual
Revenues			
Contribution from Alberta Science and Research Authority	$ 10,000	$ 9,555	$ 6,022
Industry Funding	100	100	100
Other Income	-	75	59
	10,100	9,730	6,181
Expenses - Directly Incurred (Note 2)			
Salaries, wages and employee benefits	560	519	581
Supplies and services	240	216	251
Communications	200	261	115
Research grants	7,100	7,249	6,979
Graduate student grants	2,000	1,492	2,153
	10,100	9,737	10,079
Net Operating Results	$ -	$ (7)	$ (3,898)

The accompanying notes and schedules are part of these financial statements.

iCORE Inc.

STATEMENT OF FINANCIAL POSITION
As at March 31, 2004

(In thousands)

	2004	2003
ASSETS		
Cash (Note 3)	$ 99	$ 53
Accounts Receivable (Note 4)	-	11
	$ 99	$ 64
LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 103	$ 61
	103	61
NET ASSETS		
Net Assets, Beginning of Year	3	3,901
Net Operating Results	(7)	(3,898)
Net Assets, End of Year	(4)	3
	$ 99	$ 64

The accompanying notes and schedules are part of these financial statements.

Approved by the Board of Directors

Roger S Smith

Dr. Roger Smith
Chair of the Board
iCORE Inc.

Peter C Flynn

Dr. Peter Flynn
Chair of the iCORE Audit Committee
iCORE Inc.

iCORE Inc.

STATEMENT OF CASH FLOW
For the Year Ended March 31, 2004

(In thousands)

	2004	2003
Operating Transactions		
Net Operating Results	$ (7)	$ (3,898)
Decrease in Accounts Receivable	11	-
Decrease (Increase) in Advances	-	3,900
Increase (Decrease) in Accounts Payable and Accrued Liabilities	42	(128)
Increase (Decrease) in Deferred Contributions	-	(100)
Cash Provided (applied to) by Operating Transactions	46	(226)
Capital Transactions		
Decrease (Increase) in Restricted Cash	-	100
Cash Provided by Capital Transactions	-	100
Increase (decrease) in Cash	46	(126)
Cash, Beginning of Year	53	179
Cash, End of Year	$ 99	$ 53

The accompanying notes and schedules are part of these financial statements.

iCORE Inc.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended March 31, 2004

NOTE 1 AUTHORITY AND PURPOSE

iCORE Inc. was established as a not-for-profit corporation in accordance with the *Alberta Business Corporations Act*, Chapter B-9, Revised Statues of Alberta 2000, as amended. iCORE Inc. is a wholly owned subsidiary of the Alberta Science and Research Authority. The Alberta Science and Research Authority and its wholly owned subsidiaries are exempted from the payment of income tax under Section 149 of the *Income Tax Act*.

The mandate of iCORE Inc. is to attract and grow a critical mass of outstanding researchers in the fields of computer science, electrical and computer engineering, physics, mathematics and other information and communications technology related disciplines. iCORE Inc. invests in the highest caliber research scientists and leaders who work on fundamental and applied problems in information and communications technology. It aims to fund iCORE Chairs at Alberta universities, around which world-class research teams will be developed.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate. These financial statements are prepared in accordance with the following accounting policies:

a) Reporting Entity

The reporting entity is iCORE Inc., which is a wholly owned subsidiary of the Alberta Science and Research Authority. The Alberta Science and Research Authority and its other wholly owned subsidiary, the Alberta Research Council Inc., are part of the Ministry of Innovation and Science for which the Minister of Innovation and Science is accountable. The other entity reporting to the Minister is the Department of Innovation and Science. The activities of the Department of Innovation and Science and the consolidated activities of the Alberta Science and Research Authority are not included in these financial statements. The Ministry Annual Report provides a more comprehensive accounting of the financial position and results of the Ministry's operations for which the Minister is accountable.

b) Basis of Financial Reporting

Revenues - All revenues are reported on the accrual method of accounting. Cash received for which goods or services have not been provided by year-end is recorded as unearned revenue. Externally restricted contributions are deferred and recognized as revenue in the year in which the related expenses are incurred.

NOTE 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

b) Basis of Financial Reporting

Expenses

Directly Incurred – Directly incurred expenses are those costs iCORE Inc. has primary responsibility and accountability for, as reflected in the Government's budget documents.

Grants are recorded as expenses when authorized and when all eligibility criteria have been satisfied.

Incurred by Others – Services contributed by other entities in support of iCORE Inc.'s operations are disclosed in Schedule 2.

Communications – Communications includes iCORE's outreach activities including: Banff Informatics Summit, Distinguished Lecturer Series, Annual Research Report, Year in Review report, website, newsletter, advertising, sponsorships, public launches, international research advisory committee (IRAC), and stakeholders events.

Assets – Financial assets of iCORE Inc. are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Liabilities – Liabilities represent all financial claims payable by iCORE Inc. at fiscal year end.

Net Assets – Net assets represent the difference between the value of assets held by iCORE Inc. and its liabilities.

Valuation of Financial Assets and Liabilities – Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable, accounts payable and accrued liabilities are estimated to approximate their book values.

NOTE 3 CASH

Cash

Cash consists primarily of a deposit in the Consolidated Cash Investment Trust Fund which is managed by Alberta Finance to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital.

NOTE 4 ACCOUNTS RECEIVABLE

(In thousands)

	2004			2003
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
Alberta Government Departments and Agencies	$ -	$ -	$ -	$ 11

Accounts receivable are unsecured and non-interest bearing.

NOTE 5 COMMITMENTS

(In thousands)

iCORE Inc. had research grant commitments as at March 31, 2004 totaling $11,212 (2003-$11,000).

Year	Committed
2005	$ 4,462
2006	3,300
2007	2,250
2008	1,200
Thereafter	-
	$ 11,212

NOTE 6 COMPARATIVE FIGURES

The comparative figures have been reclassified where necessary to conform with the current year's presentation.

iCORE Inc.

SCHEDULE TO FINANCIAL STATEMENTS

Schedule 1

Salary And Benefits Disclosure
For the Year Ended March 31, 2004

	2004			2003
	Salary [1]	Benefits & Allowances [2]	Total	Total
Chair of the Board	$ 19,085	$ -	$ 19,085	$ 31,483
President and Chief Executive Officer [3]	$ 208,389	$ -	$ 208,389	$ 203,907
Director of Programs	$ 92,525	$ 28,859	$ 121,384	$ 114,142

NOTES:

(1) Salary includes regular base pay, bonuses, overtime and lump sum payments.

(2) Employer's share of all employee benefits and contributions or payments made on behalf of employees including retirement savings plan, health care, dental coverage, vision coverage, and professional development allowance.

(3) The salary amount for the President and Chief Executive Officer comprises $100,211 (2003 - $82,961) for consulting services and $108,178 (2003 - $120,946) paid to the University of Calgary for full-time secondment, reduced to 80% effective July 1, 2003.

iCORE Inc.

SCHEDULE TO FINANCIAL STATEMENTS

Schedule 2

Related Party Transactions
For the Year Ended March 31, 2004

Related parties are those entities consolidated in the Province of Alberta's financial statements. Related parties also include management in iCORE Inc.

iCORE Inc. had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties:

(In thousands)

	Entities in the Ministry		Other Entities	
	2004	2003	2004	2003
REVENUES				
Grants from the Alberta Science and Research Authority	$ 9,555	$ 6,022	$ -	$ -
EXPENSES - DIRECTLY INCURRED				
Payments to the Alberta Research Council Inc.	$ 13	$ 25	$ -	$ -

iCORE Inc. also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements.

(In thousands)

	Entities in the Ministry		Other Entities	
	2004	2003	2004	2003
EXPENSES - INCURRED BY OTHERS				
Accommodation from the Alberta Research Council Inc.	$ 39	$ 38	$ -	$ -

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Operations

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

AUDITOR GENERAL *Alberta*

Auditor's Report

To the Trustees of the Alberta Heritage Foundation for Medical Research

I have audited the consolidated statement of financial position of the Alberta Heritage Foundation for Medical Research as at March 31, 2004 and the consolidated statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J. Dunn FCA
Auditor General

Edmonton, Alberta
April 30, 2004

Alberta Heritage Foundation for Medical Research

Consolidated Statement of Financial Position

March 31, 2004

(thousands of dollars)

	2004	Restated (Note 14) 2003
Assets		
Current		
Cash (Note 3)	$ 8,531	$ 5,753
Accounts receivable	94	89
Advances and prepaid expenses	248	91
	8,873	5,933
Long Term		
Property, plant and equipment (Note 5)	525	765
Total Assets	$ 9,398	$ 6,698
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	$ 2,269	$ 2,269
Deferred contributions (Note 8)	7,738	7,577
	10,007	9,846
Long Term		
Accrued retirement allowance (Note 7)	470	401
Accrued benefit liability (Note 6)	131	271
	601	672
Total Liabilities	10,608	10,518
Net Liabilities (Note 9)	(1,210)	(3,820)
	$ 9,398	$ 6,698

The accompanying notes are part of these financial statements.

Approved by the Board:

Trustee

Trustee

Alberta Heritage Foundation for Medical Research

Consolidated Statement of Operations

For the Year Ended March 31, 2004

(thousands of dollars)

	2004	Restated (Note 14) 2003
Revenues		
Transfers from Endowment Fund (Note 4)	$ 50,000	$ 51,000
Health Research Collaboration Program (Note 8)	4,639	2,877
Donations	2	-
Interest	302	308
Recoveries on Technology Commercialization (Note 10)	195	208
	55,138	54,393
Expenses		
Grants and awards		
Personnel	31,364	34,667
Training	6,975	7,343
Technology commercialization	1,162	1,138
Applied health research	2,634	1,646
Other	3,441	7,272
	45,576	52,066
Program Delivery		
HYRS program	126	124
Technology commercialization	123	128
Health technology assessment	777	682
Applied health research programs	1,474	1,307
	2,500	2,241
Operations		
Program planning	222	197
Peer review	960	1,109
Communication and education	689	725
Impact analysis	196	190
	2,067	2,221
Administration		
Corporate administration	1,309	1,349
Governance and planning	796	729
Amortization of property, plant and equipment	280	281
	2,385	2,359
	52,528	58,887
Excess (deficiency) of revenues over expenses	$ 2,610	$ (4,494)

Alberta Heritage Foundation for Medical Research

Consolidated Statement of Changes in Net Assets

For the Year Ended March 31, 2004

(thousands of dollars)

	2004			2003
	Invested in Property, Plant and Equipment	Unrestricted	Total	Total
Balance at beginning of year, as restated	$ 765	$ (4,585)	$ (3,820)	$ 674
Excess (deficiency) of revenue over expense		2,610	2,610	(4,494)
Purchase of property, plant and equipment	47	(47)	-	-
Proceeds from disposal of property, plant and equipment	(1)	1	-	-
Loss on disposal of property, plant and equipment	(6)	6	-	-
Amortization of property, plant and equipment	(280)	280	-	-
Balance at end of year	$ 525	$ (1,735)	$ (1,210)	$ (3,820)

Alberta Heritage Foundation for Medical Research

Consolidated Statement of Cash Flows

For the Year Ended March 31, 2004

(thousands of dollars)

	2004	2003
Operating activities		
Cash from operations	$ 50,499	$ 51,516
Cash from Health Research Collaboration	4,800	4,800
Cash for grants and awards	(45,580)	(53,610)
Cash for program delivery	(2,500)	(1,429)
Cash for operations	(2,125)	(3,983)
Cash for administration	(2,270)	(1,068)
Net cash provided from (used in) operating activities	2,824	(3,774)
Investing activities		
Cash paid for purchase of property, plant and equipment	(47)	(278)
Proceeds on disposal of property, plant and equipment	1	-
Net cash used in investing activities	(46)	(278)
Net increase (decrease) in cash for the year	2,778	(4,052)
Cash at beginning of year	5,753	9,805
Cash at end of year	$ 8,531	$ 5,753

Alberta Heritage Foundation for Medical Research
Notes to the Consolidated Financial Statements
March 31, 2004

Note 1 Authority and Purpose

The Alberta Heritage Foundation for Medical Research (the Foundation) operates under the authority of the Alberta Heritage Foundation for Medical Research Act, Chapter A-21, Revised Statutes of Alberta 2000, as amended. The Foundation is exempt from Income Tax under section 149(1)(d.1) of the Income Tax Act.

The Foundation supports and promotes research in Alberta to improve health and thereby the quality of life of Alberta and people throughout the world.

Note 2 Significant Accounting Policies and Reporting Practices

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(a) Basis of Presentation

These consolidated financial statements include the accounts of the Alberta Foundation for Health Research, a wholly owned subsidiary of the Foundation, which operates under The Alberta Companies Act and is a registered charitable organization for income tax purposes. The Alberta Foundation for Health Research activities are directed to promote and support medical and health research.

(b) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Property, plant and equipment, except for leasehold improvements, are amortized on a straight-line basis over their estimated useful lives at the following annual rates:

Furniture	10%
Office Equipment	20%
Computer Equipment	33%

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(c) Fair Value of Financial Instruments

Short-term instruments are valued at their carrying amounts included on the consolidated statement of financial position, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This approach applies to cash, restricted cash, accounts receivable, advances, accounts payable and accrued liabilities.

(d) Revenue Recognition

Unrestricted contributions are recognized as revenue in the current period if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted investment income is recognized as revenue when earned.

Restricted contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred. Restricted investment income is deferred and recognized as revenue in the period in which the related expenses are incurred.

(e) Grants and Awards Expense

Grants and awards approved by the Trustees of the Foundation are recorded as expenses when all conditions of eligibility have been met.

Note 3 Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund which is managed by Alberta Finance to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term income securities with a maximum term to maturity of three years. Interest is earned on the daily cash balance at the average rate of earnings of the Fund, which varies depending on prevailing market interest rates.

Trustees have authority to draw down funds from the endowment to cover cash requirements. Cash is therefore drawn from the endowment on an as needed basis. Funds to cover deferred contributions are retained in the endowment.

Note 4 Alberta Heritage Foundation for Medical Research Endowment Fund

The Endowment Fund operates pursuant to the Alberta Heritage Foundation for Medical Research Act and consists of an initial endowment of $300 million from the Alberta Heritage Savings Trust Fund together with cumulative earnings thereon, less cumulative transfers to the Foundation.

Transfers to the Foundation are available at the request of the Trustees of the Foundation provided that such transfers do not result in the net assets of the Endowment Fund, valued at cost, being less than the initial endowment.

At March 31, 2004, the net assets of the Endowment Fund valued at cost was approximately $849 million (2003 $826 million) and the market value of the investments was $897 million (2003 $767 million).

Note 5 Property, Plant and Equipment

	2004			2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	(thousands of dollars)			
Furniture and equipment	$ 528	$ 326	$ 202	$ 230
Computer hardware and software	1,136	909	227	402
Leasehold improvements	200	104	96	133
	$ 1,864	$ 1,339	$ 525	$ 765

Note 6 Pension Plan

The Foundation's pension plan is a defined benefit plan. An actuarial valuation of the plan which was carried out on March 31, 2004 by the Foundation's actuary was used to determine the Foundation's pension expense and accrued benefit liability. The following significant actuarial assumptions were employed to determine the pension expense and the accrued benefit obligation:

	2004	2003
Expected long-term rate of return on plan assets	7.50%	7.50%
Discount rate	6.00%	6.00%
Assumed rate of salary escalation	4.50%	4.50%

The transitional asset is being amortized over the average remaining service period of active employees expected to receive benefits under benefit plans. The cost of pensions and other retirement benefits earned by employees is determined

Note 6 Pension Plan (continued)

using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. For purposes of calculating the expected return on plan assets, those assets are valued at fair value. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service life of active employees.

Information about the Foundation's defined benefit plan is as follows:

	2004	2003
	(thousands of dollars)	
(a) Pension expense		
Current service cost, net of employee contributions	$ 176	$ 162
Interest cost	123	117
Expected return on plan assets	(129)	(130)
Amortization of net actuarial gain	11	-
Amortization of transitional asset	(29)	(29)
Defined benefit plan expense	$ 152	$ 120
(b) Accrued benefit obligation		
Accrued benefit obligation, beginning of year	$ (1,810)	$ (1,711)
Current service costs	(240)	(219)
Interest cost	(123)	(117)
Actuarial gain	(266)	210
Benefits paid	35	27
Accrued benefit obligation, end of year	$ (2,404)	$ (1,810)
(c) Plan assets		
Fair value of plan assets, beginning of year	$ 1,566	$ 1,708
Actual return on plan assets	338	(196)
Contributions	356	81
Benefits paid	(35)	(27)
Fair value of plan assets, end of year	$ 2,225	$ 1,566
(d) Accrued benefit liability		
Funded status - plan deficit	$ (179)	$ (244)
Unamortized net actuarial loss	447	401
Unamortized net transitional asset	(399)	(428)
Accrued benefit liability	$ (131)	$ (271)

Note 7 Retirement Allowance

Accrued retirement allowance consists of the unfunded liability of retirement allowance. The unfunded liability at March 31, 2004 of $469,787 (2003 $400,895) has been accrued and $68,892 was expensed in 2003/2004. This liability was determined by an independent actuary using the same assumptions that were used to value the pension plan.

Note 8 Health Research Collaboration (HRC)

(a) Deferred Contributions

The Foundation and Alberta Health have entered into an agreement to facilitate and enhance health research and health technology assessment and their dissemination in the Province of Alberta.

Deferred contributions represent unspent resources externally restricted under the HRC Agreement. Amounts are recognized as revenue to the extent of expenses incurred under these programs during the current period.

Changes in the deferred contributions balance are as follows:

	2004	2003
	(thousands of dollars)	
Contributions received during the year		
Transfers from Alberta Health	$ 4,800	$ 4,800
Less amounts recognized as revenue in the current year	4,639	2,877
Increase during the year	161	1,923
Balance at beginning of year	7,577	5,654
Balance at end of year	$ 7,738	$ 7,577

(b) Reallocation of Program Expenses from Prior Year

During the current year, costs incurred in the prior year related to two grant programs were allocated from AHFMR program expenses to HRC. Both programs support key objectives of the HRC but were initiated as AHFMR grant programs until sufficiently developed to demonstrate their relationship to the HRC objectives.

Note 8 Health Research Collaboration (HRC) (continued)

The reallocation was not applied retroactively; therefore the prior period has not been restated. Had this entry been booked to HRC in the prior year, the opening Deferred Contribution would have been lower by $486,000.

Note 9 Net Liabilities

Operations include the biomedical and health programs of the Foundation which are funded from the transfers from the Endowment Fund and available cash balances. The Foundation's policy is to retain funds in the Endowment Fund and transfers are made only on an as needed basis.

Note 10 Recoveries on Technology Commercialization

The Foundation has entered into various agreements to fund technology commercialization projects. The projects involved have high scientific merit, but are speculative with both technical and commercial risk. Any recoveries by the Foundation under these agreements will be long term, in some cases at least ten years. In addition to recoveries, some agreements contain a provision for future royalty payments.

Note 11 Commitments

	Grants & Awards [a]	Office Premises [b]	Total
	(thousands of dollars)		
2004-2005	$ 29,153	$ 78	$ 29,231
2005-2006	15,809	78	15,887
2006-2007	9,145	39	9,184
2007-2008	4,274	-	4,274
2008-2009	783	-	783
	$ 59,164	$ 195	$ 59,359

[a] Grants and Awards for which all conditions of eligibility have not been met are recorded as commitments.

[b] The Foundation has entered into a 69 month lease for office premises. This lease expires on September 29, 2006.

Note 12 Executive Compensation

	2004			2003
	Salaries [a]	Benefits [b]	Total [d]	Total
Chairman	$ 13,700	$ -	$ 13,700	$ 12,000
Board of Trustees	73,400	2,653	76,053	75,848
President and Chief Executive Officer	247,302	71,573 [c]	318,875	302,581
Vice President, Research	136,375	25,313 [c]	161,688	142,050
Vice President, Corporate Affairs and Commercialization	114,911	20,464 [c]	135,375	128,848
	$ 585,688	$ 120,003	$ 705,691	$ 661,327

[a] Salaries include regular base pay, overtime, retainers, honoraria, and any other direct cash remuneration.

[b] Benefits include the Foundation's share of all employee benefits and contributions or payments made on behalf of employees including Employee Insurance, Canada Pension Plan, vacation payouts, pension, health care, dental coverage, medical benefits, out-of-country medical benefits, group life insurance, accidental disability and dismemberment insurance, long and short-term disability plans and professional memberships.

[c] Contributions for accrued retirement allowance were $58,100 (2003 $34,700)

[d] Salaries and benefits are distributed to various expense categories including program planning, governance and corporate administration.

Note 13 Budget

The budget process involves the determination of the cost for the estimated number of investigators sponsored for Foundation awards and meeting standards of excellence which the Foundation could support within the spending guidelines and program objectives laid out by the Board of Trustees of the Foundation. Variance from budget is determined in a large part by the number and quality of actual applications received and deferred or declined awards.

Note 13 Budget (continued)

The 2003-2004 budget was approved by the Board of Trustees in March 2003. Following is the Unconsolidated Alberta Heritage Foundation for Medical Research budget:

	Actual	Budget
	(thousands of dollars)	
Revenue	$ 55,131	$ 55,035
Grants and Awards	45,572	47,352
Program Delivery	2,500	2,831
Operations	2,067	2,355
Administration	2,385	2,497
	52,524	55,035
Excess of revenue over expense	$ 2,607	$ -

Funds are budgeted and transferred from the Endowment Fund on an as needed basis.

Note 14 Comparative Figures

Certain 2003 figures have been reclassified to conform to the 2004 presentation.

In prior years, certain accounts payable should have been reported as commitments as all conditions of the awards had not been met. As a result, comparative figures have been restated. Accounts payable for 2003 were reduced by $717,000, expenses for 2002-2003 were reduced by $429,000 and net liabilities at April 1, 2003 decreased by $288,000 from the amounts previously reported. The adjustments have no effect on the results of operations for 2003-2004.

Note 15 Approval of Financial Statement

These financial statements were approved by the Board of Trustees.

ALBERTA HERITAGE FOUNDATION FOR SCIENCE AND ENGINEERING RESEARCH

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2004

Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Changes in Net Assets

Statement of Cash Flows

Notes to the Financial Statements

AUDITOR GENERAL
Alberta

Auditor's Report

To the Board of Trustees of the Alberta Heritage Foundation for Science and Engineering Research

I have audited the statement of financial position of the Alberta Heritage Foundation for Science and Engineering Research as at March 31, 2004 and the statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J. Dunn FCA
Auditor General

Edmonton, Alberta
April 30, 2004

Alberta Heritage Foundation
For Science and Engineering Research
Statement of Financial Position
March 31, 2004
(thousands of dollars)

	2004	2003
Assets		
Current		
Cash (Note 3)	$ 190	$ 191
Accounts receivable	31	4
Advanced and prepaid expenses	15	5
	236	200
Long Term		
Property, plant and equipment (Note 5)	121	149
Total Assets	$ 357	$ 349
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	$ 1,388	$ 655
Current portion of deferred lease inducement	10	10
	1,398	665
Long Term		
Deferred lease inducement	16	26
	1,414	691
Net Liabilities (Note 6)	(1,057)	(342)
	$ 357	$ 349

The accompanying notes are part of these financial statements.

Approved by the Board:

Mr. Alvin Libin
Chairman

Ms. Mary Arnold, FCA
Trustee

Alberta Heritage Foundation For Science and Engineering Research

Statement of Operations

For the Year Ended March 31, 2004

(thousands of dollars)

	2004	2003
Revenue		
Transfers from Endowment Fund (Note 4)	$ 10,416	$ 6,325
Interest and other revenue	48	21
	10,464	6,346
Expenses		
Grants and awards		
Students	1,735	1,024
Associateships	741	687
Fellowships	643	-
Industrial Associateships	646	-
Establishment	846	1,310
New Faculty Awards	162	-
Scholars	305	-
Ingenuity Centres	4,330	2,414
Special Initiatives	33	-
Inno-centre	300	-
	9,741	5,435
Operations		
Peer review	131	191
Human resources	682	639
Communication and education	206	127
External relations	121	82
	1,140	1,039
Administration		
Corporate administration	133	147
Governance and planning	123	116
Amortization of property, plant and equipment	42	41
	298	304
	11,179	6,778
Deficiency of revenues over expenses	$ (715)	$ (432)

The accompanying notes are part of these financial statements.

Alberta Heritage Foundation For Science and Engineering Research

Statement of Changes in Net Liabilities

For the Year Ended March 31, 2004

(thousands of dollars)

	2004			2003
	Invested in Capital Assets	Unrestricted	Total	Total
Balance at beginning of year	$ 149	$ (491)	$ (342)	$ 90
Deficiency of revenue over expense	-	(715)	(715)	(432)
Purchase of property, plant and equipment	15	(15)	-	-
Loss on disposal of property, plant and equipment	(1)	1	-	-
Amortization of property, plant and equipment	(42)	42	-	-
Balance at end of year	$ 121	$ (1,178)	$ (1,057)	$ (342)

The accompanying notes are part of these financial statements.

Alberta Heritage Foundation For Science and Engineering Research

Statement of Cash Flows

For the Year Ended March 31, 2004

(thousands of dollars)

	2004	2003
Operating activities		
Cash from operations	$ 10,464	$ 6,346
Cash for grants and awards	(9,031)	(4,835)
Cash for operations	(1,136)	(1,062)
Cash for administration	(283)	(305)
Net cash provided from operating activities	14	144
Investing activities		
Cash paid for purchase of property, plant and equipment	(15)	(18)
Net (decrease) increase in cash for the year	(1)	126
Cash at beginning of year	191	65
Cash at end of year	$ 190	$ 191

The accompanying notes are part of these financial statements.

Alberta Heritage Foundation For Science and Engineering Research Notes to the Financial Statements March 31, 2004

Note 1 Authority and Purpose

The Alberta Heritage Foundation for Science and Engineering Research (the Foundation) operates under the authority of the Alberta Heritage Foundation for Science and Engineering Research Act, Chapter A-22, Revised Statutes of Alberta 2003, as amended. The Foundation commenced operations on April 1, 2000 and is exempt from Income Tax under section 149(1)(d.1) of the Income Tax Act.

The Foundation supports and promotes a balanced long term program of science and engineering research based in Alberta directed to the discovery of new knowledge and application of that knowledge to improve the quality of Alberta's economy, communities and environment.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(a) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Property, plant and equipment are amortized on a straight-line basis over their estimated useful lives at the following annual rates:

Furniture	10%
Office Equipment	20%
Computer Equipment	33%

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(b) Fair Value of Financial Instruments

Short-term instruments are valued at their carrying amounts which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This approach applies to cash, accounts receivable, accounts payable and accrued liabilities.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(c) Revenue Recognition

Unrestricted contributions are recognized as revenue in the current period if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted investment income is recognized as revenue when earned.

(d) Grants and Awards Expense

Grants and awards approved by the Trustees of the Foundation are recorded as expenses when all conditions of eligibility have been met.

(e) Lease Inducement

The lease inducement, a cash payment received by the Foundation on the lease for office premises, has been deferred and is accounted for as a reduction of office rental expense on a straight-line basis over the term of the lease.

Note 3 Cash

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund which is managed by Alberta Finance to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term income securities with a maximum term to maturity of three years. Interest is earned on the daily cash balance at the average rate of earnings of the Fund, which varies depending on prevailing market interest rates.

Note 4 Alberta Heritage Foundation for Science and Engineering Research Endowment Fund

The Endowment Fund operates pursuant to the *Alberta Heritage Foundation for Science and Engineering Research Act* and consists of an initial endowment of $500 million from the General Revenue Fund of the Province of Alberta together with cumulative earnings thereon, less cumulative transfers to the Foundation.

Note 4 Alberta Heritage Foundation for Science and Engineering Research Endowment Fund (continued)

Transfers to the Foundation are available at the request of the Trustees of the Foundation provided that such do not exceed, in a fiscal year, 4.5% of the market value of the Endowment Fund.

At March 31, 2004, the net assets of the Endowment Fund valued at cost were approximately $522 million (2003 $474 million) and the market value of the investments were $527 million (2003 $420 million). The significant increase in the Endowment value is due, in part, to the addition of $21 million to the Endowment Fund during the year.

Note 5 Property, Plant and Equipment

	2004			2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	(thousands of dollars)			
Furniture and equipment	$ 90	$ 26	$ 64	$ 73
Computer hardware and software	66	42	24	31
Leasehold improvements	63	30	33	45
	$ 219	$ 98	$ 121	$ 149

Note 6 Net Liabilities

Expenses include the science and engineering programs of the Foundation which are funded from the transfers from the Endowment Fund and available cash balances. The Foundation's policy is to retain funds in the Endowment Fund and transfers are made only on an as needed basis.

Note 7 Executive Compensation

	2004			2003
	Salaries [a]	Benefits [b]	Total [c]	Total [c]
Chairman	$ 11,400	$ -	$ 11,400	$ 10,650
Board of Trustees	87,500	2,836	90,336	83,932
President	238,325	3,999	242,324	249,716
	$ 337,225	$ 6,835	$ 344,060	$ 344,298

[a] Salaries include regular base pay, retainers, honoraria and any other direct cash remuneration.

[b] Benefits include the Foundation's share of all employee benefits and contributions or payments made on behalf of employees including Employment Insurance, Canada Pension Plan, accidental disability and dismemberment insurance, long and short-term disability plans and professional memberships.

[c] Salaries and benefits are distributed to various expense categories including human resources and governance and planning.

Note 8 Commitments

	Grants & Awards [a]	Office Premises [b]	Total
	(thousands of dollars)		
2004-2005	$ 2,983	$ 39	$ 3,022
2005-2006	691	39	730
2006-2007	100	23	123
2007-2008	100	-	100
2008-2009	18	-	18
	$ 3,892	$ 101	$ 3,993

[a] Grants and Awards for which all conditions of eligibility have not been met are recorded as commitments.

[b] The Foundation has entered into a 60 month lease for office premises. This lease expires October 31, 2006.

Note 9 Budget

The budget process involves the determination of the cost for the estimated number of investigators sponsored for the Foundation's awards and meeting standards of excellence which the Foundation could support within the spending guidelines and program objectives laid out by the Board of Trustees of the Foundation.

The 2003-2004 budget was approved by the Board of Trustees in March 2003. Following is the Alberta Heritage Foundation for Science and Engineering Research budget:

	Actual	Budget
	(thousands of dollars)	
Revenue	$ 10,464	$ 13,428
Grants and Awards	9,741	11,871
Operations	1,140	1,186
Administration	298	371
	11,179	13,428
(Deficiency) excess of revenue over expense	$ (715)	$ -

Funds are budgeted and transferred from the Endowment Fund on an as needed basis.

Note 10 Comparative Figures

Certain 2003 figures have been reclassified to conform to the 2004 presentation.

Note 11 Approval of Financial Statements

These financial statements were approved by the Board of Trustees.

Other Information

Information in this section is unaudited.

Key Activities / Outcomes for 2003 – 04 for:

- Alberta Heritage Foundation for Medical Research
- Alberta Heritage Foundation for Science and Engineering Research (Alberta Ingenuity Fund)

Alberta Heritage Foundation for Medical Research (AHFMR)

AHFMR Act

The objects of the Foundation are to establish and support a balanced long-term program of medical research based in Alberta directed to the discovery of new knowledge and the application of that knowledge to improve health and the quality of health services in Alberta.

AHFMR Goals (Outputs and Outcomes)

To maintain, strengthen, or expand established programs, and lead initiatives in health research in Alberta.

Personnel Support

- For the competition year 2003 – 04, new awards granted over the next five-year period in various areas of health research totalled $22 million to 40 researchers.
- Key basic research areas include: investigating how to help the brain recover from stroke; causes of kidney transplant failure; obesity in native children; refining orthopaedic surgery; intestinal pain and inflammation; genetic causes of disease; and depression and mental health.
- $5.4 million award to nine health researchers working in such areas as cost effectiveness of diabetes education programs, physical activity in the population, health behaviour in chronic heart disease patients who are economically deprived, improving kidney transplant outcomes, and obesity in Cree children.

Partnerships and Initiatives that provide additional financial resources

In fall of 2000, AHFMR entered a second five-year contract with Alberta Health and Wellness called the Health Collaboration Agreement. Progress in this agreement can be described by the following:

Health Research Fund

- For the competition year 2003 – 04, 17 researchers received offers of Health Research Fund awards totalling $1.87 million over two years. The Health Research Fund is administered by AHFMR on behalf of Alberta Health and Wellness.
- A further $565,500 has been released to 14 researchers conducting on-going projects approved in last year's competition. Research projects funded in 2004 include: a public education program about psychosis; physical activity in prostate cancer patients, colorectal screening in Alberta, chronic kidney disease prevalence among the elderly, preventing disability associated with back pain, improving care of hemodialysis patients, and spirituality to help depression.
- AHFMR awarded the first Programs in Health Research Services funding to Dr. Finlay McAlister and his research team who are aiming to improve the quality of care for Albertans with vascular diseases like diabetes, stroke, heart and kidney disease. Dr. McAlister and his team will be supported with approximately $900,000 over the next three years. This new award is a direct result of the information about high priorities in health research gathered from the State of the Science reviews commissioned by AHFMR in 2003.
- AHFMR's Health Research Agenda, continues to guide AHFMR in allocating the most effective and efficient support for health research throughout the province.

Health Technology Assessment

AHFMR's Health Technology Assessment (HTA) Unit produced the following assessments:

- Islet cell transplantation for the treatment of non-uremic type 1 diabetic patients with severe hypoglycemia, April 2003.
- Surgical treatments for deep venous incompetence, July 2003.
- Ovulation induction drug therapy for anovultary infertility associated with polycystic ovary syndrome, March 2004.

Six Technotes on the following topics were completed:

- Sclerotherapy for varicose veins of the legs, July 2003.
- Optical coherence tomography for diagnosing retinal disease, August 2003.
- Use of cannabis or cannabinoids for non-malignant chronic pain, March 2004.
- Botulinum toxin type A injection for achalasia and anal fissure, March 2004.
- Botulinum toxin type A injection into the iliopsoas muscle, March 2004.
- Adult to adult living donor liver transplantation, March 2004.

Four information papers were completed on the following topics:

- Cost estimation of stereotactic radiosurgery: application to Alberta, May 2003.
- A study of the impact of 2001 – 02 HTA products: final report, June 2003.
- Profile of an HTA program. The AHFMR Health Technology Assessment Unit, 2002 – 2003, *March 2004.*
- Interventional and intra-operative magnetic resonance imaging, *March 2004.*

Three Collaborative projects were completed with joint publications on the following topics:

- Health Technology Assessment on the Net: a guide to Internet sources of information 5th edition, *May 2003* with Canadian Coordinating Office for Health Technology Assessment.
- A Systematic Review of the Social, Ethical, and Legal Dimensions of Genetic Cancer Risk Assessment Technologies, *March 2004* with Calgary Health Region and the U of C.
- Health technology assessment: Alberta's needs and future directions. Summary of results of a consultation workshop, *September 2003* with Alberta Health and Wellness.

Four Health Technology Initiatives to encourage the use of evidence to inform policy and decision making in the Alberta health care system were produced:

- Decision-making for health care systems: a legal perspective, *March 2004.*
- Review of health technology assessment skills development program, *March 2004.*
- Standard quality assessment criteria for evaluating primary research papers from a variety of fields, *February 2004.*
- Workshop summary. Knowledge-brokers: linking researchers and policy makers, March 2004 with Research Transfer Network of Alberta.
- Two issues of the newsletter were produced: Tech-Wise — Issue No. 22, October 2003; Issue No. 23, March 2004.

Health Quality Council of Alberta

AHFMR entered a partnership with the Health Quality Council of Alberta (HQCA) to administer the newly created HQCA Fellowship in Patient Safety.

Applied Health Research Programs

The Applied Health Research Programs portfolio of AHFMR delivers and supports programs to increase capacity across the health care delivery system for the production and use of locally relevant research:

- Through the fourth Swift Efficient Application of Research in Community Health (SEARCH) Program 2003 – 05, 28 participants are developing research projects to address local health issues. Projects range from studies of the implementation of new guidelines for the management of community acquired pneumonia in an emergency department to a study of the impact of transportation on health in a northern community. Recruitment of participants for SEARCH V will begin in the summer of 2004.
- The Community Research Ethics Board of Alberta (CREBA), a community-based ethics board pioneered by AHFMR to ensure access to ethics review for research across the province, met monthly, reviewed twenty six protocols from rural regions and independent practitioners, and provided guidance and referral to novice researchers. AHFMR is leading the Alberta Research Ethics Community Consensus Initiative, a working group of Alberta research ethics boards (REBs) and regional health authorities (RHAs), to make recommendations on processes for determining which types of projects require REB review, and ensuring appropriate access to review.
- The Alberta Consultative Health Research Network (ACHRN), funded through a special initiative grant to the U of C has established Research Development Advisors in Edmonton, Lethbridge, and Medicine Hat, with consultants linked to Northern Lights, David Thompson and Peace Country Health Regions. Linkages with regional colleges will further develop research support for practitioners.
- The Research Transfer Network of Alberta, established in 2001 provided a series of video-conference sessions ("Water Cooler Sessions") on best-practice research transfer with participation from 10 – 15 sites province-wide and 30 – 50 participants per session.
- Nine new health researchers received independent investigator awards through Population Health Investigator and Health Scholar funding. This brings the total number of investigators supported in health services and population health research to 39.

To maintain research education and training programs and encourage young Albertans to pursue research careers.

- Over $7 million was awarded in fellowships, clinical fellowships, studentships and summer studentships to more than 500 researchers-in-training.
- The SEARCH Program, an AHFMR-led collaboration of the U of A, U of C, Alberta Health and Wellness, and Alberta's health authorities, completed the research training of 28 community-based health professionals from seven health authorities and six other health care organizations. The $1 million, AHFMR-funded SEARCH program trains participants in tailor-made, intensive modules. The participants are linked in a province-wide computer network and are involved in individual and group projects based on health needs prioritized by their regions.
- The Lionel McLeod scholarship was awarded to U of A MD/PhD student Talib Rajwani for his studies into the causes of curvature of the spine in children.

- AHFMR offered the fourth Heritage Youth Research Summer (HYRS) Program in 2003 which gave 45 of the brightest high school students summer research experience working and learning in AHFMR and other labs at the U of A, U of C and U of L.
- AHFMR, in a partnership with Neuroscience Canada to develop capacity in neuroscience, administered awards to three doctoral and post-doctoral fellows at the three universities.
- AHFMR's Technology Commercialization (TC) Program successfully placed five new TC Interns during this year, bringing the number of Interns supported that year to nine.

To encourage increased collaboration in Alberta, Canada, and elsewhere among investigators, research institutions, governments, other granting agencies and the private sector.

- AHFMR continued to contribute to the Canada Research Chairs through stipend and infrastructure funding contributions ($2.5 million over five years) based on amounts funded by Canada Foundation for Innovation and other partners.
- AHFMR participated in and sponsored several workshops and events and contributed to the development of a province-wide network of linkage and exchange in applied health research and its use in decision-making (e.g. HTA workshops and conferences, SEARCH regional receptions in Fort McMurray, Lethbridge, Grande Prairie, Red Deer, SEARCH managers workshops, etc.). AHFMR is working with the Canadian Health Services Research Foundation (CHSRF), Health Services Utilization and Research Commission (HSURC) and other organizations in developing models for research transfer capacity in health organizations.
- AHFMR established a pilot project with the Health Quality Council of Saskatchewan to implement and evaluate a partnership model for SEARCH program participation. Two SEARCH IV participants are from Saskatchewan. A similar model is being explored with AHFMR by universities and health organizations in the United Kingdom and Uganda.
- Applied Health Research Programs such as SEARCH and ACHRN stimulate and support multi-disciplinary, multi-institutional collaboration, for example the SEARCH Core Faculty includes five faculties in two universities.
- AHFMR held the fourth annual Super Research Saturday lecture series for the public at the U of A and U of C.
- AHFMR co-hosted, along with other provincial agencies, the Alberta visit of three Gairdner Award winners.
- AHFMR senior staff serve on advisory committees and boards of other organizations such as ASTech and ASRA.

To continue to promote the development of health research-related economic activities in Alberta, including the commercialization of innovations.

- The TC Program committed over $1.16 million in project and internship funding during the year. Mentoring and access to expertise for applicants continue to be strong components of the Program.
- AHFMR continued to develop the TC Internship Program through active recruitment of industry receptors. TC Interns receive training in a broad spectrum of commercialization activities including: market analysis/intelligence, technology transfer, business development, product development, and intellectual property management.
- AHFMR produced updates to its TC Charting Progress and TC Internship reports.
- AHFMR participated in and sponsored several TC-related workshops and forums.
- AHFMR continues to develop in-depth case studies of previously funded projects for use in TC workshops and educational forums.
- AHFMR worked to strengthen infrastructure by facilitating researcher education in entrepreneurship; and collaborating with economic development agencies and venture capitalists.
- AHFMR provided ongoing support of Inno-centre Alberta.
- AHFMR was a patron of the 2003 ASTech awards.

AHFMR Goals (Resources, Processes, Procedures)

To maintain international standards of excellence through an appropriate and effective peer review system.

- As of March 31, 2004, 242 AHFMR funded researchers and 281 researchers-in-training are supported at the U of A, U of C and U of L.
- Additional mental health and health services researchers receive funding through Alberta Health and Wellness's Health Research Fund, administered by AHFMR.
- All awards to personnel are made according to the highest international criteria for excellence. To fulfil this purpose, more than 500 reviewers from all over the world provide us with their reviews or sit on one of 17 AHFMR standing peer review advisory committees for awards competitions.
- AHFMR has incorporated a new decision tool to aid the peer review process.
- AHFMR requires annual reporting on all awards.
- AHFMR has added an Impact Analysis division to evaluate the impact and outcomes of the Foundation's activities.
- During 2003 – 04, three HTA reports were produced and all were externally peer reviewed prior to publication.
- AHFMR began preparing for the review process by an International Board of Review as required by the AHFMR Act.

To manage expenditures to ensure the continuance of AHFMR for future generations while avoiding significant fluctuations in annual spending.

- The AHFMR Endowment was created in 1980 with $300 million. As of March 31, 2004 the AHFMR Endowment has almost tripled.
- The cumulative AHFMR investment in the province for biomedical and health research since 1980 now totals over $750 million.
- AHFMR has quarterly meetings with Alberta Revenue, as well as annual meetings between Alberta Revenue and AHFMR's Board of Trustees. Alberta Revenue manages AHFMR's endowment.
- Transfers from the endowment were $50 million during 2003 – 04.

To maintain and improve communication with the public, government, the research community, universities, and health-related institutions.

- AHFMR publications included the award-winning quarterly magazine AHFMR Research News, the AHFMR Community Report (in the form of a 2004 calendar with financial highlights), and Health Technology Assessment Reports.
- The AHFMR web site is continually monitored and maintained for currency.
- AHFMR monthly news bulletins to MLAs were produced.
- AHFMR media work highlights research accomplishments of funded personnel on a monthly basis.
- AHFMR distributed its Community Report in the form of a flyer (that can be used to request the 2004 AHFMR calendar) through seven daily newspapers, the waiting rooms of all physicians in the province and to those on a 19,000-name mailing list.
- AHFMR supported two science students as media fellows, one with CBC Radio in Edmonton, the other with CBC Radio in Calgary.
- AHFMR supported the Alberta Science Fair program with prize money for seven regional winners.
- AHFMR participated in and was a major sponsor of the Alberta Teachers Association Science Council Conference in November, with AHFMR-funded researchers as guest speakers.
- AHFMR presented, in collaboration with the U of A and U of C Faculties of Medicine, a day-long series of lectures on popular health topics for the public at each university in October.
- AHFMR, in collaboration with the Faculty of Medicine and Dentistry at the U of A, the Faculty of Medicine at the U of C, Alberta Cancer Board, and Alberta Cancer Foundation sponsored the visit to Alberta in October of three Gairdner Award winners.
- AHFMR sponsored events organized by other research agencies and university departments intended to highlight health research.

To regularly review and update AHFMR's future plans and priorities.

- AHFMR's Board of Trustees meets quarterly to review planning and directions.
- AHFMR senior staff consult regularly with AHFMR advisory committees composed of members of the research community about funding recommendations, and program planning and directions (eg Scientific Advisory Committee, Health Advisory Committee, Program Advisory Committee)
- An International Board of Review (which AHFMR is legislated to organize every six years) will be convened in May of 2004 to review AHFMR's activities and recommend directions. A report will be issued in early fall of 2004.

Key Factors Affecting Performance

AHFMR performance is based on its primary function of funding health research. The number of proposals submitted and quality of applications is a main determining factor in any of the competitions for awards, as is the amount of money available annually from a portion of the AHFMR endowment interest. Since AHFMR works in partnership with the province's universities to recruit and pay salaries of researchers, initiatives on the part of the universities play a large part in recruiting the best and brightest researchers to Alberta. Alberta RHAs are key contributors to the development of health research capacity throughout the province through their endorsement, support of, and contribution to, the SEARCH program and other AHFMR applied health research initiatives. In 1998, an International Board of Review endorsed AHFMR's directions and activities and confirmed AHFMR's seminal role in the province in establishing and continuing to build a first-class research community.

Anticipated Changes or New Directions

The establishment, over the past 24 years, of a top quality research community and brain trust in Alberta is attracting funding from outside sources at a rate of $2 – 3 dollars for every AHFMR dollar invested. AHFMR seeks out and initiates new opportunities for matching funding and for collaborative ventures with other provincial and national funding bodies. AHFMR also seeks out opportunities to expand its research portfolio and bridge the gap between the generation of knowledge through health research results, and its application to improve health and the effectiveness of the health system.

Changes Needed to Measure Performance

Currently, universal mechanisms for measuring comprehensive, overall performance in medical and health research and the impact of that research in socioeconomic terms do not exist. AHFMR carefully tracks the usual scientific metrics of publications, citations and career performance. Other measures, such as case studies, are highlighted in AHFMR's publications. AHFMR actively seeks opportunities that would assist in measuring the impact of investment on research. AHFMR has created an internal Impact Analysis unit to develop and apply appropriate methodology to gauge the impact and effectiveness of AHFMR's activities. AHFMR's internal impact analysis framework relates to both program and performance monitoring as well as medium and long term outcome evaluation of AHFMR activities.

Alberta Ingenuity Fund

Key Activities/Outcomes for 2003 – 04

Alberta Ingenuity Fund (Alberta Ingenuity) is the trade name of the Alberta Heritage Foundation for Science and Engineering Research established by the Government of Alberta in 2000 by an Act of the Legislature that provided an initial endowment of $500 million.

Interest from the endowment is used to support a balanced, long-term program of world-class science and engineering research conducted by top researchers at Alberta's three research-intensive universities, and colleges and technical institutes, and in industry.

Alberta Ingenuity operates at arm's-length from government, is governed by a Board of Trustees; headed by a President/CEO; and advised by an international science and engineering advisory council. Alberta Ingenuity is accountable to Albertans through the Minister of Innovation and Science.

Goal 1: To implement and maintain "relentlessly first class" grants and awards programs.

In 2003 – 04, Alberta Ingenuity provided a total of $9.7 million in funding for new and existing recipients in the following programs: studentship, fellowship/associateship, industrial associateship, new faculty grant/establishment grant, scholar, and research centre.

- **Studentship:** approximately $1.7 million went toward helping 135 top graduate students gain full-time research experience in a natural science or engineering discipline. Subsequent to the January 2004 competition, Alberta Ingenuity committed to support an additional 75 students.

  Additionally, Alberta Ingenuity continues to collaborate with iCORE through Alberta Ingenuity/iCore complementary awards to draw the best and brightest ICT students to Alberta in disciplines related to information technology.
- **Fellowship (& 2002 Associateship):** approximately $1.4 million went toward helping 32 top post-doctoral Fellows/Associates gain research training at the U of A, U of C, U of L, and at Olds College Centre for Innovation.

  Please note: The former Associateship program was split into two new programs: Fellowship for academia and Industrial Associateship for industry.
- **Industrial Associateship:** Alberta Ingenuity launched this new program to help researchers gain experience conducting cutting edge applied research in an industrial setting. The program also helps start-up and fledgling technology-based companies gain additional research expertise at relatively low cost (i.e. by attracting and securing highly qualified scientists who will advance research initiatives undertaken by the company). Four competitions were held, resulting in approximately $650,000 going to support 20 post graduates (5 Master's, 15 PhD's) working in industry.
- **New Faculty Grant (& 2001 Establishment Grant):** This program replaced the Establishment Grant program and ran for the first time in this fiscal year. Approximately $1.0 million went to 20 top new independent researchers at the U of A, U of C and U of L, primarily to help them with start-up operating costs.

- **Scholar:** This program was launched in this fiscal year. In the first competition, Alberta Ingenuity committed up to $2.1 million over five years to three Ingenuity Scholars and recruitment grants (2004 fiscal spending was $305,000, due to later award start dates for Ingenuity Scholars). The program helps recruit and support research 'stars' to seed or accelerate the development of Alberta Ingenuity Research Centres in areas of strategic importance to Alberta.
- **Research Centre:** Alberta Ingenuity committed approximately $4.3 million towards three Alberta Ingenuity Research Centres: $1.5 million for the creation of the Alberta Ingenuity Centre for Water Research; $1.5 million for the Alberta Ingenuity Centre for Machine Learning; and $1.3 million for the Alberta Ingenuity Centre for Carbohydrate Science.

Goal 2: To maintain research excellence through consultation and an appropriate, and effective peer review system.

- Alberta Ingenuity receives strategic advice on program design from its Science and Engineering Advisory Council, an international group of research experts and leaders in broader areas such as the commercialization of innovations, technology and policy, and championing the status of women in science and engineering.
- Alberta Ingenuity also relies on the recommendations of provincial, national and international peer reviewers from industry and academia to ensure that funding is provided to the very best researchers. Our ever expanding network of expert reviewers either participates in review committees, or provides detailed written assessments in their area of expertise.

Goal 3: To encourage and enhance innovation in industry.

- A key objective of the Alberta Ingenuity Research Centres Program is to encourage the commercialization of research results, build collaborations with Alberta industry, and train highly qualified personnel.
- Alberta Ingenuity's Industrial Associateship program helps researchers gain experience conducting cutting edge applied research in an industrial setting. This program also helps start-up and fledgling technology-based companies gain additional research expertise at relatively low cost (i.e. by attracting and securing highly qualified scientists who will advance research initiatives undertaken by the company).
- Alberta Ingenuity is a patron of the ASTech Leadership Awards Foundation.
- Alberta Ingenuity is a founding member of Inno-Centre Alberta, which provides mentoring, marketing, and support to start-up companies.
- Alberta Ingenuity is a sponsor of the joint Alberta Ingenuity-Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGGA) Research Excellence Award presented annually to a top engineer conducting research in Alberta.

Goal 4: To champion science and engineering research in the community.

- Alberta Ingenuity sponsors *Innovation Alberta*, a province-wide science and technology program on CKUA Radio, as well as *Earth and Sky*, a science program (on the same station) directed at kids.
- Alberta Ingenuity supports the Innovation 2005 initiative, a celebration of 100 years of science and technology achievement in Alberta.
- Over 150 registrants participated in Alberta Ingenuity's "Watershed: Research Informing Public Policy" conference — the second of a series of annual conferences that will focus on an area of intersection between science and public policy.
- Alberta Ingenuity regularly conducts media work to highlight the work of Alberta Ingenuity-supported researchers.

Goal 5: To maintain research education and training programs and encourage young people to seek careers in science and engineering.

- Alberta Ingenuity continued to sponsor science and engineering camps for Alberta school students at the U of A, U of C and U of L.
- Alberta Ingenuity continued to participate in and be a major sponsor of the Alberta Teachers' Association's annual Science Council Conference.
- Alberta Ingenuity supported Inside Education's summer Water Institute for teachers.
- Alberta Ingenuity continued to support Explore IT, a one-day conference designed to encourage Grade 9 girls to seek careers in ICT.

Goal 6: To be responsible stewards of the endowment and manage expenditures effectively.

- Alberta Ingenuity is governed by a Board of Trustees, chaired by Alvin Libin of Calgary. Trustees are appointed by the Government of Alberta. Six trustees are nominated by various educational institutions and professional organizations to represent them and six more represent the general public.
- Alberta Ingenuity's annual budget and spending is approved by the Board of Trustees which ensures that expenditures fall within legislated guidelines.
- Alberta Revenue manages Alberta Ingenuity's endowment. All transfers from the endowment require Board of Trustee approval.

Key Factors Affecting Performance

Long-term program planning is based on the value and performance of the endowment fund.

Anticipated Changes or New Directions

Alberta Ingenuity continues to consult with industry, universities, and public colleges and technical institutes to design innovative programs that will facilitate quality research in these settings.

Changes to Performance Measures

- Measurement will include the organization's ability to recruit and retain excellent researchers in Alberta, and the impact Alberta Ingenuity support will have on academia and industry who participate in grant programs (i.e., through new intellectual property, inventions, and innovations).
- Alberta Ingenuity will track new investments, research/industry partnerships in the province, and outside sources involved in Alberta research, that may be attracted by Alberta Ingenuity support.

Alphabetical List of Entities' Financial Statements In Ministry 2003 – 04 Annual Reports

Entities included in the consolidated government reporting entity

Ministry, Department, Fund or Agency	Ministry Annual Report
Agriculture Financial Services Corporation	Agriculture, Food and Rural Development
Alberta Alcohol and Drug Abuse Commission	Health and Wellness
Alberta Capital Finance Authority	Finance
Alberta Dairy Control Board[1]	Agriculture, Food and Rural Development
Alberta Energy and Utilities Board	Energy
Alberta Foundation for the Arts	Community Development
Alberta Gaming and Liquor Commission	Gaming
Alberta Government Telephones Commission	Finance
Alberta Heritage Foundation for Medical Research Endowment Fund	Revenue
Alberta Heritage Savings Trust Fund	Revenue
Alberta Heritage Scholarship Fund	Revenue
Alberta Heritage Science and Engineering Research Endowment Fund	Revenue
Alberta Historical Resources Foundation	Community Development
Alberta Insurance Council	Finance
Alberta Pensions Administration Corporation	Finance
Alberta Petroleum Marketing Commission	Energy
Alberta Research Council Inc.	Innovation and Science
Alberta Risk Management Fund	Revenue
Alberta School Foundation Fund	Learning
Alberta Science and Research Authority	Innovation and Science
Alberta Securities Commission	Revenue
Alberta Social Housing Corporation	Seniors
Alberta Sport, Recreation, Parks and Wildlife Foundation	Community Development
Alberta Treasury Branches	Finance
ATB Investment Services Inc.	Finance
Child and Family Services Authorities:	
Calgary and Area Child and Family Services Authority	
Central Alberta Child and Family Services Authority	
East Central Alberta Child and Family Services Authority	
Edmonton and Area Child and Family Services Authority	
North Central Alberta Child and Family Services Authority	
Northeast Alberta Child and Family Services Authority	
Northwest Alberta Child and Family Services Authority	
Southeast Alberta Child and Family Services Authority	
Southwest Alberta Child and Family Services Authority	
Metis Settlements Child and Family Services Authority	Children's Services
Credit Union Deposit Guarantee Corporation	Finance
Crop Reinsurance Fund of Alberta[1]	Agriculture, Food and Rural Development
Department of Agriculture, Food and Rural Development	Agriculture, Food and Rural Development
Department of Children's Services	Children's Services
Department of Community Development	Community Development
Department of Energy	Energy
Department of Finance	Finance
Department of Gaming	Gaming

Ministry, Department, Fund or Agency	Ministry Annual Report
Department of Health and Wellness	Health and Wellness
Department of Innovation and Science	Innovation and Science
Department of Learning	Learning
Department of Revenue	Revenue
Department of Seniors	Seniors
Department of Solicitor General	Solicitor General
Department of Sustainable Resource Development	Sustainable Resource Development
Environmental Protection and Enhancement Fund	Sustainable Resource Development
Gainers Inc.	Finance
Government House Foundation	Community Development
Historic Resources Fund	Community Development
Human Rights, Citizenship and Multiculturalism Education Fund	Community Development
iCORE Inc.	Innovation and Science
Lottery Fund	Gaming
Ministry of Aboriginal Affairs and Northern Development[1]	Aboriginal Affairs and Northern Development
Ministry of Agriculture, Food and Rural Development	Agriculture, Food and Rural Development
Ministry of Children's Services	Children's Services
Ministry of Community Development	Community Development
Ministry of Economic Development[1]	Economic Development
Ministry of Energy	Energy
Ministry of Environment[1]	Environment
Ministry of Finance	Finance
Ministry of Executive Council[1]	Executive Council
Ministry of Gaming	Gaming
Ministry of Government Services[1]	Government Services
Ministry of Health and Wellness	Health and Wellness
Ministry of Human Resources and Employment[1]	Human Resources and Employment
Ministry of Infrastructure[1]	Infrastructure
Ministry of Innovation and Science	Innovation and Science
Ministry of International and Intergovernmental Relations[1]	International and Intergovernmental Relations
Ministry of Justice[1]	Justice
Ministry of Learning	Learning
Ministry of Municipal Affairs[1]	Municipal Affairs
Ministry of Revenue	Revenue
Ministry of Seniors	Seniors
Ministry of Solicitor General	Solicitor General
Ministry of Sustainable Resource Development	Sustainable Resource Development
Ministry of Transportation[1]	Transportation
N.A. Properties (1994) Ltd.	Finance
Natural Resources Conservation Board	Sustainable Resource Development
Persons with Developmental Disabilities Boards:	Community Development
	Calgary Region Community Board
	Central Region Community Board
	Edmonton Region Community Board
	Northeast Region Community Board
	Northwest Region Community Board
	Provincial Board
	South Region Community Board
Provincial Judges and Masters in Chambers Reserve Fund	Finance
Supplementary Retirement Plan Reserve Fund	Finance
Victims of Crime Fund	Solicitor General
Wild Rose Foundation	Community Development

Entities not included in the consolidated government reporting entity

Ministry, Department, Fund or Agency	Ministry Annual Report
Alberta Cancer Board	Health and Wellness
Alberta Foundation for Health Research	Innovation and Science
Alberta Heritage Foundation for Medical Research	Innovation and Science
Alberta Heritage Foundation for Science and Engineering Research	Innovation and Science
Alberta Mental Health Board	Health and Wellness
Alberta Teachers' Retirement Fund Board	Learning
Improvement Districts' Trust Account	Municipal Affairs
Local Authorities Pension Plan	Finance
Long-Term Disability Income Continuance Plan — Bargaining Unit	Human Resources and Employment
Long-Term Disability Income Continuance Plan — Management, Opted Out and Excluded	Human Resources and Employment
Management Employees Pension Plan	Finance
Provincial Judges and Masters in Chambers Pension Plan	Finance
Public Post Secondary Institutions	Learning
Public Service Management (Closed Membership) Pension Plan	Finance
Public Service Pension Plan	Finance
Regional Health Authorities	Health and Wellness
School Boards	Learning
Special Areas Trust Account	Municipal Affairs
Special Forces Pension Plan	Finance
Supplementary Retirement Plan for Provincial Judges and Masters in Chambers	Finance
Supplementary Retirement Plan for Public Service Managers	Finance
Workers' Compensation Board	Human Resources and Employment

(Footnotes)

1 The Crop Reinsurance Fund of Alberta was merged into the Agriculture Financial Services Corporation, effective April 1, 2003.

2 Dissolved August 1, 2003.

3 Ministry includes only the departments so separate department financial statements are not necessary.

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